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CONTROLS OVER THE COMPUTERIZED ACCOUNTS PAYABLE SYSTEM AT  
DEFENSE FINANCE AND ACCOUNTING SERVICE KANSAS CITY

Report No. D-2002-008

October 19, 2001

Office of the Inspector General  
Department of Defense

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<b>Abstract</b> Serious internal control weaknesses have been reported over the years in DoD payment processes and systems. The Defense Finance and Accounting Service (DFAS) Kansas City used the Computerized Accounts Payable System for Windows (CAPS[W]) to make vendor payments to Marine Corps customers. During FY 2000, 75,861 vendor payments, valued at \$1.2 billion, were made for Marine Corps customers using CAPS(W). On April 1, 2001, the Director, DFAS, capitalized all commercial payment resources under the Director, Commercial Pay Services. This is the first in a series of audit reports addressing the controls over the Computerized Accounts Payable System.		
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### **Acronyms**

CAPS(W)	Computerized Accounts Payable System for Windows
CAGE	Contractor Activity Government Entity
C.F.R.	Code of Federal Regulations
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
DISA	Defense Information Security Agency
DPPS	Defense Procurement Payment System
DUNS	Data Universal Numbering System
EFT	Electronic Funds Transfer
FAR	Federal Acquisition Regulation
FSD	Financial Systems Directorate
GAO	General Accounting Office
OMB	Office of Management and Budget
PPA	Prompt Payment Act



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

October 19, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
NAVAL INSPECTOR GENERAL

SUBJECT: Audit Report on Controls Over the Computerized Accounts Payable  
System at Defense Finance and Accounting Service Kansas City  
(Report No. D-2002-008)

We are providing this report for review and comment. This is the first report in a series related to controls over the Computerized Accounts Payable System. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Director, Defense Procurement, comments were responsive. However, the Director, Defense Procurement, did not provide a completion date for corrective actions. The Director, Commercial Pay Services for the Defense Finance and Accounting Service, comments were generally responsive except for Recommendations A.6., B.2., B.3.c., and C.6. We request additional comments on those recommendations. The Marine Corps did not provide comments to the draft report. Therefore, we request that the Marine Corps provide comments on Recommendations B.3. and B.4. We request that management provide all comments by December 19, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil) or Mr. Carmelo G. Ventimiglia at (317) 510-3852 (DSN 699-3852) (cventimiglia@dodig.osd.mil). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

*Thomas F. Gimble*

Thomas F. Gimble  
Acting  
Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

**Report No. D-2002-008**

(Project No. D2000FI-0248)

**October 19, 2001**

### **Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Kansas City**

#### **Executive Summary**

**Introduction.** Serious internal control weaknesses have been reported over the years in DoD payment processes and systems. The Defense Finance and Accounting Service (DFAS) Kansas City used the Computerized Accounts Payable System for Windows (CAPS[W]) to make vendor payments to Marine Corps customers. During FY 2000, 75,861 vendor payments, valued at \$1.2 billion, were made for Marine Corps customers using CAPS(W). On April 1, 2001, the Director, DFAS, capitalized all commercial payment resources under the Director, Commercial Pay Services. This is the first in a series of audit reports addressing the controls over the Computerized Accounts Payable System.

**Objectives.** Our objectives were to evaluate the controls associated with making payments using the Computerized Accounts Payable System and progress in transitioning to the Defense Procurement Payment System. This report focuses on the controls associated with making vendor payments. We also evaluated the effectiveness of the management control program as it related to making vendor payments using the Computerized Accounts Payable System.

**Results.** DFAS Kansas City took actions to systematically segregate access within CAPS(W). However, two systems management personnel had unrestricted access to CAPS(W) and other system users performed functions that required further segregation. When coupled with other system deficiencies and control weaknesses, CAPS(W) was vulnerable to improper and unauthorized use (finding A).

DFAS Kansas City made 17,983 payments from May 1 through July 31, 2000, and approximately 16,605 of these payments did not meet all the documentation or other requirements imposed by OMB regulations implementing the Prompt Payment Act. The fact that a payment was not supported did not mean that the payment was invalid or fraudulent, but indicated management's failure to enforce the requirements necessary for proper support. As a result, DFAS and Marine Corps managers assumed an increased risk that payments were not being made in compliance with the Prompt Payment Act and that improper payments may have been made (finding B).

The structure and business practices of the vendor payment office at DFAS Kansas City did not provide efficient and effective controls over vendor payments. As a result, DFAS Kansas City did not ensure that improperly supported and erroneous payments

would be detected and corrected before payment (finding C). See Appendix A for details on the management control program as it relates to controls over vendor payments.

**Summary of Recommendations.** We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics, require the use of DD Form 250, “Material Inspection and Receiving Report,” as the primary means for documenting receipt and acceptance of goods and services. We recommend that the Director, Commercial Pay Services, develop compensating controls and change the business structure and practices at DFAS Kansas City for making payments using CAPS(W). We also recommend the removal of remote access to update and certify information in CAPS(W). We also recommend that the Director, Commercial Pay Services, issue interim guidance that discontinues exceptions to the requirements for a proper invoice, specifies what a receiving report must contain to properly support a payment, and standardizes the rules for making properly supported miscellaneous payments. We recommend that the Director, Commercial Pay Services, in conjunction with the Marine Corps, develop stringent procedures for accepting invoice receipt dates affixed outside the payment office, return all invoices to vendors that do not meet payment requirements, and issue guidance to Marine Corps activities identifying the standards for proper receipt and acceptance of goods and services. We recommend that the Deputy Chief of Staff for Installations and Logistics, Marine Corps, ensures that all contracting documents provide the information necessary for making proper payments.

**Management Comments.** The Director, Defense Procurement, concurred with the recommendation to require the use of DD Form 250 as the primary means of documenting receipt and acceptance. The Director, Commercial Pay Services, agreed to develop a standard business structure and more stringent procedures for accepting invoice receipt dates, returning invoices, and entering data into CAPS(W). The Director, Commercial Pay Services, also agreed to review system access profiles to ensure that they properly segregate duties. The Director, Commercial Pay Services, partially agreed with the need to provide guidance and training to Marine Corps activities on receiving reports, improve certification of payments, perform more frequent post-payment reviews, and provide interim guidance on requirements for proper invoices and receiving reports. The Director, Commercial Pay Services, did not agree with the need to remove remote access from Marine Corps activities. The Marine Corps did not provide comments to the draft of the final report. See the Finding section of the report for a discussion of management comments and the Management Comments section for a complete text of the comments.

**Audit Response.** Comments from the Director, Defense Procurement, were responsive. We request that the Director, Defense Procurement, provide an estimated completion date for the corrective action. Comments from the Director, Commercial Pay Services, were generally responsive. We request that the Director, Commercial Pay Services, reconsider her position on the need to remove access from Marine Corps activities until CAPS(W) can provide proper segregation of duties and security over remotely entered data. We request that Director, Defense Procurement; DFAS; and the Marine Corps provide comments on the final report by December 19, 2001.

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## Background

**Vendor Payments.** Vendor payments are made for operational support such as utilities, medical services, and administrative supplies and services. The current vendor payment process depends on the receipt of various hard-copy documents. As a general rule, payments must be supported by an obligating document (contract, purchase order, or other document obligating DoD to pay for goods or services), an invoice, and a receiving report. For most payments made for Marine Corps customers, technicians at Defense Finance and Accounting Service (DFAS) Kansas City, Kansas City, Missouri, review supporting documents for accuracy and completeness. The information is entered into the Computerized Accounts Payable System for Windows (CAPS[W]) to create a payment voucher, which is then approved for payment by a certifying official. Certifying officers should compare the payment vouchers to the supporting invoices, receiving reports, and contract or obligation documents to ensure the accuracy of the payment information before disbursement. For utility payments, DFAS Kansas City transferred the function of reviewing documents and certifying payments to Marine Corps installations. Following certification, the payment information is loaded into the disbursing system. The disbursing system uses the payment transactions generated by CAPS(W) to make disbursements.

**Inspector General, DoD, Report.** At the request of Senator Charles E. Grassley, the Inspector General, DoD, audited the results of the actions taken within the Air Force vendor payment network to correct problems previously reported. Inspector General, DoD, Report No. D-2000-139, "Controls Over the Integrated Accounts Payable System," June 5, 2000, reported that DFAS Denver, Denver, Colorado, established systematic controls to segregate duties and reduced access to the Integrated Accounts Payable System, the system used to process Air Force payments. However, DFAS Denver needed to reassess the system access given to users, especially those outside their field sites. Giving more people access than was necessary increased the risk of unwarranted and unauthorized access and the likelihood that unsupported and improper payments would be made. Other system weaknesses contributed to unauthorized Integrated Accounts Payable System access and the ability to circumvent payment of interest to vendors as required by the Prompt Payment Act (PPA).

**Automated System for Making Marine Corps Vendor Payments.** DFAS Kansas City is responsible for the accounting, disbursing, collecting, and financial reporting of the Marine Corps. DFAS Kansas City uses CAPS(W) to process Marine Corps vendor payments. The system computes the payment due dates, payment amounts, and interest payments. CAPS(W) receives data from manual sources and from interfaces with automated systems such as the standard procurement system. CAPS(W) uses both automated and manual controls to maintain accurate and complete data. DFAS originally planned to replace CAPS(W) at DFAS Kansas City with the Defense Procurement Payment System (DPPS) in December 2001. However, the implementation date has slipped and a revised date had not been set.

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**Realignment of Vendor Payment Operations.** On March 29, 2001, the Director, DFAS, announced the capitalization of all commercial payment resources under the Commercial Pay Business Line. The Director, Commercial Pay Services, is responsible for the commercial pay business line. This business line is comprised of two product lines (contract pay and vendor pay). The Vendor Pay Product Line encompasses entitlement determination for contracts not administered by Defense Contract Management Agency, transportation payments, and miscellaneous payments to businesses and individuals. All vendor payment functions at DFAS Kansas City have been realigned under the U.S. Marine Corps and Defense Agency Support Directorate of the Vendor Pay Product Line.

## Objectives

Our objectives were to evaluate the controls associated with making payments using the CAPS and progress in transitioning to DPPS. This report focuses on the controls associated with making vendor payments. We also evaluated the effectiveness of the management control program as it related to making vendor payments using CAPS. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program. See Appendix B for a summary of prior coverage.

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## A. System Access Controls

DFAS Kansas City took actions to systematically segregate access within CAPS(W). However, systems management personnel had unrestricted access to CAPS(W) and other system users performed functions that required further segregation. This occurred because:

- access profiles were not centrally developed and controlled,
- access profiles did not fully segregate user functions, and
- remote user access was not monitored.

When coupled with other system deficiencies and control weaknesses, CAPS(W) was vulnerable to improper and unauthorized use.

### Direction and Guidance

In August 1998, the Director, DFAS, directed all DFAS vendor payment offices to perform a comprehensive review of the segregation of duties within their vendor payment systems. In General Accounting Office (GAO) Report No. GAO/AIMD-98-274, "Improvements Needed in Air Force Vendor Payment Systems and Controls," September 28, 1998, GAO recommended that the Director, DFAS, strengthen payment processing controls by establishing separate organizational responsibilities for entering payment data and revising vendor payment access levels to correspond with the new structure. GAO Report No. GAO/AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," November 1, 1999, requires access restrictions and segregation of key duties in authorizing, processing, recording, and reviewing transactions.

### DFAS Kansas City Databases

**Main Database.** DFAS Kansas City maintained two separate CAPS(W) databases for making Marine Corps vendor payments. DFAS Kansas City vendor payment personnel used one database to make a majority of the Marine Corps payments. As of October 30, 2000, access to this database was granted to 61 DFAS Kansas City vendor payment personnel and 19 Financial Systems Directorate (FSD) personnel at DFAS Indianapolis. The FSD personnel provide system maintenance and support functions for CAPS(W) users. The ability to update data within CAPS(W) and inquire about the status of payments is controlled by access profiles.

**Database for Making Utility Payments.** DFAS Kansas City created a second database to allow for the payment of utility bills by personnel at 13 Marine Corps installations. Utility companies submitted electricity, gas, water, and sewer bills. In February 2000, DFAS Kansas City issued guidance stating that remote users would be allowed to process utility payments directly in CAPS(W). Access to the second database was granted to 44 Marine Corps personnel at the 13 installations and 2 individuals assigned to the DFAS Kansas City systems office. Each person had the ability to process the information needed to make payments. Remote users entered

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the information supporting the payment (obligation document, invoice, and receiving report) into CAPS(W), certified the payment, and then sent DFAS Kansas City a signed voucher worksheet. DFAS Kansas City personnel compared the signature on the voucher worksheet to a signature card on file and the payment was uploaded to the disbursing system.

## **System Access to the Main Database**

In January 2000, DFAS Kansas City significantly improved the segregation of duties within the vendor payment office by separating the functional capabilities assigned to 12 access profiles. Access was divided by the ability to enter invoice and receipt data, purchase order information, vendor maintenance data, data needed to make miscellaneous payments, and the ability to certify payments. Table 1 shows each of the 12 access profiles for the 80 personnel granted access to the database used to make the majority of the Marine Corps payments. The table also identifies the functional capabilities associated with each access profile.

<b>Table 1. Access to Main DFAS Kansas City Database</b>						
		<b>Functional Capability</b>				
<b>Profile</b>	<b>Number of Individuals</b>	<b>Invoice and Receiving Reports</b>	<b>Miscellaneous Payments</b>	<b>Purchase Order Maintenance</b>	<b>Vendor Maintenance</b>	<b>Certify</b>
<b>All</b>	2	All <sup>1</sup>	Accessible <sup>2</sup>	All	All	Accessible
<b>Citibank<sup>3</sup></b>	5	All	Accessible	All	None	None
<b>Citibank Lead</b>	1	Inquiry <sup>4</sup>	None	Inquiry	Inquiry	Accessible
<b>Contract Input</b>	6	Inquiry	None	All	All	None
<b>Examiner 1</b>	20	All	Accessible	Inquiry	Inquiry	None
<b>Financial Analyst</b>	1	Inquiry	None	Inquiry	Inquiry	None
<b>FSD Support</b>	18	All	Accessible	All	Inquiry	None
<b>Lead</b>	5	Inquiry	None	Inquiry	Inquiry	Accessible
<b>Lead 1</b>	1	Inquiry	None	Inquiry	Inquiry	Accessible
<b>Read Only</b>	19	None	None	None	None	None
<b>Reports</b>	1	None	None	Inquiry	Inquiry	None
<b>Support Team Leader</b>	1	Inquiry	None	All	All	None
<ol style="list-style-type: none"> <li>1. "All" means the ability to add, delete, inquire, and update within a function.</li> <li>2. Related to the Miscellaneous Payments function, "accessible" means the ability to enter all the data for processing a miscellaneous payment. Related to the Certify function, "accessible" means the ability to certify the payment in CAPS(W).</li> <li>3. The Citibank profile allows technicians to enter information related to credit card accounts.</li> <li>4. "Inquiry" means that the function can only be inquired.</li> </ol>						

**Access Profiles.** Despite the efforts taken by DFAS Kansas City to segregate access within CAPS(W), duties were still not properly segregated. In addition, the ability

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to delete data in CAPS(W) was not adequately controlled and the miscellaneous payment function was not restricted to nonrecurring payments. The Director, Commercial Pay Services, should establish standard access profiles for use throughout the CAPS(W) network. As discussed in finding C, the access profiles should complement the business structure developed for vendor payment offices. In the interim, improved controls over system access are essential to reduce the risk that the data in CAPS(W) are manipulated to circumvent PPA requirements or to make fraudulent payments.

**System and FSD Support.** Two individuals within the systems office at DFAS Kansas City had unrestricted system access and 18 FSD personnel were inappropriately granted the ability to add, update, and delete operational data within the database. After we discussed our concerns about the access granted to systems management personnel, DFAS Kansas City deleted the “All” profile and created a new “Systems Admin” profile. The new profile removed the ability to certify payments but continued to allow them to add, update, and delete operational data such as purchase order information, invoices, and receiving reports. The “FSD Support” profile granted 18 FSD personnel at DFAS Indianapolis with the ability to update operational data within CAPS(W). Systems management personnel stated that the access granted the “Systems Admin” and “FSD Support” profiles was needed to assist technicians with troubleshooting problems in CAPS(W). However, they could not justify why these capabilities were required on a continuous basis. We believe that systems management personnel should not have uncontrolled update access to the operational database for indefinite periods of time. If they require access to troubleshoot an operational problem, systems management personnel should perform these actions in a test database or they should only be given access for the period of time needed to correct the problem.

**Proper Access Documentation.** The 18 FSD personnel were granted access to CAPS(W) without completing DISA (Defense Information Security Agency) Form 41, “System Authorization Access Request,” and receiving the approval of the on-site database administrator and functional manager at DFAS Kansas City. Each DISA Form 41 should specify the level of access granted and indicate that systems managers approved the access. A DISA Form 41 was not on file at DFAS Kansas City for any of the 18 FSD personnel.

**Vendor Maintenance.** DFAS Kansas City granted too many users the ability to update vendor maintenance tables and provided those with this access the ability to update other vendor payment information. Only a limited number of individuals should be allowed to update the vendor maintenance tables containing Electronic Funds Transfer (EFT) and check remittance information. However, these individuals should not be able to alter any of the other payment data or certify the payment. The nine individuals with the “All,” “Contract Input,” and “Support Team Leader” profiles could update the vendor maintenance tables. They could also add, update, or delete purchase order data. The two individuals in the “All” profile could also add, update, and delete invoice and receipt data and certify a payment. The ability to update vendor maintenance tables should be limited. For example, the

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vendor payment offices that used the Integrated Accounts Payable System limited access to no more than three people, and these people did not have the ability to update any other type of vendor payment information.

**Deletion of Records.** The ability to delete data in CAPS(W) was not adequately controlled. Individuals with the functional capability to add, inquire, and update invoices and receiving reports; perform purchase order maintenance; and maintain vendor information could also delete that information from CAPS(W). The ability to delete data was not separated from the ability to add, inquire, and update data in the profiles established by DFAS Kansas City. Only a limited number of individuals should have the ability to delete data from CAPS(W). This ability should be restricted to either the supervisors of the accounts payable section or the senior staff accountant in the vendor payment office. Further, a proper audit trail should be developed and maintained of all data removed from the system. For example, DFAS St. Louis, St. Louis, Missouri, had limited the ability to delete records to only the staff accountants working within the vendor payment office. Before data were removed from CAPS(W), a technician provided a staff accountant with documentation explaining why the data required removal. The documentation was maintained and compared to the CAPS(W) report, "Deleted Records Report," to validate that data were removed properly. The ability to delete data from CAPS(W) should be better controlled in order to limit the risk that interest penalties are avoided by removing old documents from the system and calculating new payment due dates.

**Miscellaneous Payments.** DFAS Kansas City should limit the number of individuals granted the miscellaneous payments function and restrict the use of the function to only specific types of miscellaneous payments. DFAS Kansas City granted 45 individuals with the ability to enter all the data (invoice, receipt, obligation, and vendor remittance data) for entitling a miscellaneous payment. The function was created to expedite the entry of data for making miscellaneous payments. Twenty of the 45 individuals were systems management personnel who had been assigned the "FSD Support" and "All" access profiles. Twenty voucher examiners also had this functional capability. As previously discussed, systems management personnel should not routinely have the ability to process the information necessary to make vendor payments. Because of the extensive capability granted the miscellaneous payments function, no more than five individuals assigned the "Examiner 1" access profile should be granted this function. Most of the 30 different types of miscellaneous payments that DFAS Kansas City made were less than \$2,500 and were often not individually reviewed and certified before they were made. The use of the miscellaneous payments function should usually be limited to one-time payments, such as legal claims. Recurring payments, such as utility payments, should be established in CAPS(W) as contract payments so that more than one individual would be responsible for entering the data for entitling the payments.

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## Remote Access

Allowing personnel at Marine Corps installations to remotely enter and certify payment data was risky because CAPS(W) did not limit access within the database. CAPS(W) did not prevent system users at Marine Corps installations from updating data and certifying payments of other installations. In addition, DFAS Kansas City had not established appropriate compensating controls to ensure the integrity of the remotely entered data.

**Segregating Duties of Remote Users.** CAPS(W) did not restrict access within a database. An individual given the ability to add, update, or delete information could alter entitlement information for any organization in the database. A certification official could certify any payment in the database. For example, the two individuals in the systems office at DFAS Kansas City could enter, update, and delete payment data and certify all payments in the database. Consequently, the data entered by the 13 Marine Corps installations were not secure and could be altered by anyone with similar access. The installations attempted to segregate duties by requiring that different individuals enter the data and certify the payment. Specifically:

- 25 individuals could enter, update, and delete invoices, receiving reports, purchase order data, and vendor remittance information. These 25 individuals could update or delete any information in the database.
- 19 individuals could certify payments. Although DFAS Kansas City had signature cards and appointment letters on file for each of these individuals, CAPS(W) allowed certification officials to certify any payment in the database.

A system change to CAPS(W) had been requested in February 1998 that would have restricted the ability of remote users to access only the information related to their organization. However, the system change was not made because of its cost and the anticipated fielding of DPPS. DFAS plans to field DPPS at DFAS Kansas City in December 2001. However, the date slipped and a revised date had not been set. Unless compensating controls are in place to ensure that unauthorized changes to payment information are prevented or immediately identified and corrected, people outside the paying office should not have the ability to change the information in CAPS(W). The access granted the 2 individuals in the systems office at DFAS Kansas City should be removed, and the access of the 25 individuals should be segregated. One individual should not be able to enter, update, and delete invoices and receiving reports; perform purchase order maintenance; and maintain vendor remittance information.

**Compensating Controls.** DFAS Kansas City had not established a memorandum of understanding with each of the 13 Marine Corps installations that identified the specific types of payments that could have been processed in the database, requirements for properly supporting payments, and procedures for retaining documents supporting payments. Although DFAS Kansas City had the ability to delete any transaction from the upload to the disbursing system,



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DFAS Kansas City had not established other compensating controls to ensure that individuals were not inappropriately altering data within the database and that the payments were proper. DFAS Kansas City was not monitoring the system to ensure that only appropriately authorized individuals were entering, altering, and deleting information supporting payments and certifying payments. At a minimum, an audit trail should be established and periodically reviewed to detect changes to entitlement data. DFAS Kansas City should also periodically perform a detailed review of the types of payments that are entered remotely and the support for them. Remote access to update and certify information in CAPS(W) should be removed until such time as CAPS(W) can be changed, replaced, or adequate compensating controls developed and implemented.

## **CAPS(W) System Concerns**

DFAS Kansas City reported as a material weakness in its FY 2000 Annual Statement of Assurance, dated October 25, 2000, that access controls within CAPS(W) were inadequate. Specifically, the FY 2000 Annual Statement of Assurance reported that:

- individuals assigned to DFAS Kansas City systems management office had a global (“All”) access that allowed them to perform functions that could result in fraudulent payments that would be difficult or impossible to detect,
- DFAS Kansas City systems management office personnel could self-assign and modify access capabilities, and
- FSD personnel at DFAS Indianapolis could manipulate databases without proper audit trails and control by the DFAS Kansas City systems management office.

DFAS Kansas City concluded that because it did not have control of CAPS(W), the problems needed to be resolved by DFAS Arlington.\* We agree that system changes were outside the control of DFAS Kansas City. However, DFAS Kansas City could have eliminated the access granted by the “All” profile and developed compensating controls to monitor the changes made by systems management personnel.

## **Summary**

DFAS Kansas City did not sufficiently segregate access within CAPS(W) and limit the number of users who could update the vendor maintenance tables, enter miscellaneous payments, and delete information in CAPS(W). Systems management personnel should not have universal system access. Users granted access to CAPS(W) should properly complete access forms to include approvals by the functional manager and database administrator. Standard user profiles for CAPS(W) should be developed that fully consider the need to standardize the

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\*DFAS Arlington is the site of DFAS headquarters.

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structure of the vendor payment office and business practices within DFAS for making vendor payments. Although DFAS Kansas City identified system access issues as a material management control weakness in its FY 2000 Annual Statement of Assurance, it had not taken sufficient actions to correct the problems and identified the full scope of system weaknesses that could result in unauthorized CAPS(W) access and the manipulation of certified payment data.

## **Recommendations, Management Comments, and Audit Response**

**A. We recommend that the Director, Commercial Pay Services, establish compensating controls at the Defense Finance and Accounting Service Kansas City that will:**

**1. Restrict the access granted under the “Financial Systems Directorate Support” and “System Admin” profiles to system related functions for specific periods of time.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS would review system access profiles to ensure that they provide adequate separation of duties.

**2. Ensure a Defense Information Security Agency Form 41, “System Authorization Access Request,” is properly completed and on file before granting access to the Computerized Accounts Payable System for Windows.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that a properly completed DISA Form 41 on file before granting access to CAPS(W).

**3. Limit access to update vendor maintenance tables and eliminate other types of update access granted to individuals with vendor maintenance access.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS will review system access profiles to ensure that they provide adequate separation of duties.

**4. Limit the ability to delete data from the Computerized Accounts Payable System for Windows and establish audit trails for data removed from the system.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS will review system access profiles to ensure that they provide adequate separation of duties.

**5. Limit the use of the miscellaneous payments function to nonrecurring payments.**

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**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS will review system access profiles to ensure that they provide adequate separation of duties.

**6. Remove remote access to update and certify information in the Computerized Accounts Payable System for Windows until the system can provide proper segregation of duties and security over remotely entered data.**

**DFAS Comments.** The Director, Commercial Pay Services, nonconcurred and stated that a separate CAPS(W) database was used to manage Marine Corps utility payments. The Director also stated that DFAS will work with the Marine Corps to ensure that certification officials only certify payments belonging to the certifying official's organization.

**Audit Response.** The DFAS comments were partially responsive. While the ability to update and certify information was somewhat restricted by using a separate database, individuals working in organizations at the 13 sites had access to the database and could alter payment information that did not belong to their organization. Until CAPS(W) can provide security over remotely entered data, remote access should be removed. We request that DFAS reconsider its position on the recommendation and provide comments on the final report.

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## B. Documentation Supporting Vendor Payments

DFAS Kansas City made 17,983 payments from May 1 through July 31, 2000, and approximately 16,605 of these payments lacked at least one element of support prescribed in 5 Code of Federal Regulations (C.F.R.) Part 1315. Both contract and miscellaneous payments lacked the required documentation. The fact that a payment was not supported did not mean that the payment was invalid or fraudulent, but indicated management's failure to enforce the requirements necessary for proper support. Payments were made without the proper support because:

- DoD Regulation 7000.14-R, volume 10, allowed exceptions to requirements for a proper invoice and did not specify what a receiving report must contain to properly support a payment;
- DoD guidance in the Federal Acquisition Regulation (FAR) and the DoD Regulation 7000.14-R, volume 10, is inconsistent with and has not been revised to comply with 5 C.F.R. Part 1315;
- standardized rules for making properly supported miscellaneous payments did not exist; and
- DFAS Kansas City technicians and certification officials either did not detect missing and incomplete items on supporting documents or considered the items unnecessary for making the payments.

As a result, DFAS and Marine Corps managers incurred an increased risk that payments were not being made in compliance with the Prompt Payment Act (PPA) and that improper payments may have been made.

### Review of Vendor Payments

**Criteria.** The principal guidance used for making payment to vendors was the PPA, as implemented by the Office of Management and Budget (OMB) in 5 C.F.R. Part 1315, "Prompt Payment; Final Rule," September 29, 1999. The OMB guidance has strict requirements that supporting documents must meet in order to be considered proper. The PPA and supporting documentation requirements are further described in FAR subpart 32.9, "Prompt Payment;" Defense Federal Acquisition Regulation Supplement (DFARS) subpart 232.9, "Prompt Payment;" and DoD Regulation 7000.14-R, volume 10, "Contract Payment Policy and Procedures," November 1999. The FAR subpart 32.9, DFARS subpart 232.9, and DoD Regulation 7000.14-R, volume 10, are in the process of being updated. DFAS Kansas City made payments based on contract documents that needed to comply with the prompt payment criteria and miscellaneous payments that had limited business rules on how each payment should be supported. DoD Regulation 7000.14-R, volume 10, also contains some information on how to support many of the miscellaneous payments made

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by DoD. DFAS Kansas City further defined the requirements for supporting documents within a locally developed standard operating procedure. DFAS Kansas City revised its Vendor Pay Standard Operating Procedures in October 2000. Guidance on supporting documentation is discussed in Appendix D.

**Sample Selection.** To determine whether the documents that were used to support CAPS(W) payments complied with 5 C.F.R. Part 1315 requirements, we obtained a population of 17,983 payments, valued at \$290.6 million, made using CAPS(W) from May 1 through July 31, 2000. From this population, we selected a sample of 208 payments in 3 strata. We used the criteria in the 5 C.F.R. Part 1315 to assess the documents (invoice, receiving report, and obligation document) that supported each sample item. The sample also determined whether the data on the supporting documents were entered correctly in CAPS(W). Details concerning sample selection are contained in Appendix C.

## Sample Results

Approximately 16,605 of the 17,983 payments made from May 1 through July 31, 2000, were not supported in compliance with 5 C.F.R. Part 1315 requirements. Of the 208 sample items reviewed, 101 items were contractual payments and 107 items were miscellaneous payments. Table 2 shows the projections of the estimated number of payments that were not properly supported for each type of payment. Appendix C gives details of projections and confidence levels.

<b>Table 2. Estimated Payments Not Properly Supported by Type of Payment</b>		
Type of Payment	Total Payments	Estimate of Improperly Supported Payments
Contractual	8,175	7,511
Miscellaneous	9,808	9,094
Total	17,983	16,605

Documents supporting contract payments must meet the 5 C.F.R. Part 1315 requirements to be considered proper. We held supporting documentation for miscellaneous payments to very similar standards. Although a case can be made for not holding miscellaneous payments to these strict standards, standard business rules outlining the requirements for supporting documentation for miscellaneous payment was limited. A determination that a payment was not properly supported did not mean that the payment was invalid or fraudulent. Instead, it showed that DFAS Kansas City had not strictly enforced the 5 C.F.R. Part 1315 requirements for supporting documents, creating an environment where improper and fraudulent payments could be made without detection. Our sample also showed that 37 payments were considered improper because the vendor was paid the incorrect amount or the payment should not have been

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made based on the supporting documentation provided. When projected across the population, this would result in between 2,045 and 4,680 improper payments.

## Contractual Payments

**Determination of Proper Payments.** The results of the sample showed that DFAS Kansas City made about 7,511 contract payments from May 1 through July 31, 2000, without the proper support. The payments were made because DFAS Kansas City technicians and certification officials either did not detect missing items required on supporting documents or considered the items unnecessary for making the payments. Documents that lacked elements of support prescribed in regulations implementing the PPA were to be returned to the originator and no payment made until a corrected copy of the document was obtained. If the document did not meet these requirements, we considered it improper. Table 3 shows the estimated number of unsupported payments caused by each type of supporting document. Because more than one document could have caused a payment to be unsupported, the total number of improperly supported payments in Table 3 exceeds 7,511 payments. Appendix C provides details of the sample.

<b>Table 3. Estimated Number of Payments Not Properly Supported by Type of Document</b>	
<b>Improper Document</b>	<b>Number of Payments</b>
Invoice	2,916
Receiving Report	7,315
Contract	Not Reportable

**Invoices.** The review of sample payments showed that 31 of 101 invoices did not properly support the payments. Invoices were improper if they did not contain a contract or obligating document number, did not adequately describe what was purchased or the description was inconsistent with the contract, or were altered. When our results were projected over the population, about 2,916 invoices submitted were not proper for payment and should have been returned. Appendix C gives details of the sample projections. DFAS Kansas City technicians accepted the invoices even though they were missing information or the information on them was incomplete. DoD Regulation 7000.14-R, volume 10, allowed exceptions to requirements for a valid invoice. The regulation states that it is not necessary for an invoice to be free of defects in order for it to be proper and create a valid demand on the Government; the approving activity determines whether a valid demand exists. These exceptions were contrary to 5 C.F.R. Part 1315 and FAR requirements

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(Appendix D). We also identified problems with the computation of invoice receipt dates when the designated billing office was other than the payment office.

**Contract Numbers.** DFAS Kansas City made payments based on invoices that did not have contract numbers identified on the original invoices submitted by the vendors. DFAS Kansas City either created the contract number from other sources or accepted an invoice that had the contract number corrected by someone other than the vendor. The sample showed that this condition occurred for 20 contract payments. For example, a contractor submitted invoice number 478115, to Marine Corps Air Station, Cherry Point, North Carolina, for services rendered during FY 2000. The invoice cited an incomplete contract number. Instead of returning the invoice to the vendor to ensure the payment was made to the correct contract, personnel at the installation contracting office placed the contract number on the invoice. In another situation, a vendor submitted invoice number E87833 to Marine Corps Detachment, Aberdeen Proving Ground, Maryland, without a contract number on the invoice. The Marine Corps Detachment forwarded the invoice to DFAS Kansas City along with the receiving report. On the receiving report, Aberdeen Proving Ground personnel cited the correct contract number. Instead of returning the invoice to the vendor for correction, DFAS Kansas City used the contract number on the receiving report to overcome the omission on the invoice.

**Descriptions Consistent with the Contract.** Invoices submitted for payment should describe the goods received or services performed and be consistent with the line items contained in the contract. In 16 of the payments reviewed, the items billed were not consistent with the items contained in the contract or did not contain an adequate description of what was invoiced. For example, a contractor submitted invoice number 99-07Y-000514 to Marine Corps Logistics Base, Barstow, California. The invoice stated that it was for work done on an oil separator in Building 375. The contract delivery order identified nine different line items for several types of labor, material, and equipment, but did not indicate anything about an oil separator or Building 375. DFAS Kansas City technicians assumed that the vendor provided the services contracted for because the total amount from the invoice matched the total amount on the delivery order. The technicians should have returned the invoice to the vendor and requested that a corrected invoice be provided specifying the line items contained in the contract delivery order. In another case, a vendor submitted invoice number CP0500 to Marine Corps Air Station, Cherry Point, North Carolina, for reimbursement of dumping fees and part of the fixed-price work on the contract. The contract broke out the fixed-price work into three specific line items. Two of the line items were for monthly services and one was for weekly services. The invoice did not state a period of time that it covered. The receiving report with this payment treated it as a progress payment with a percentage of work completed rather than a service contract. The description on the invoice should have been consistent with the line items in the contract and provided the period of performance.

**Invoice Alteration.** DFAS Kansas City's standard operating procedures allowed for the alteration of invoice data provided the data was lined out so the original information could be read and initialed by the person making the correction. According to 5 C.F.R. Part 1315, an invoice that is missing

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required data should be returned to the vendor, which can make the needed corrections and resubmit a clearly marked corrected invoice. Nine invoices reviewed in our sample were altered to make the information needed for payment proper. None of the altered invoices were identified as corrected invoices. When we questioned technicians as to who made the corrections, technicians could not identify the person making the changes. When we contacted individuals in the designated billing offices at Marine Corps installations, they stated that they usually corrected the invoices. Because improper invoices were not returned to the vendors for correction, future invoices on the contract could contain identical errors. DFAS should not accept for payment any invoice that was altered by anyone other than the originator of the invoice.

**Invoices Sent to Other Than the Payment Office.** When invoices were sent to other than the payment office, the invoice receipt dates were often not used properly to compute the payment due date and the payment process was delayed.

**Invoice Receipt Dates.** DFAS Kansas City did not use the correct invoice receipt dates when the date stamp did not clearly identify the designated billing office. In the sample, 51 of 101 invoices reviewed did not have invoice receipt dates affixed to the invoices that clearly identified that the designated billing office had affixed the date to the invoice. To properly compute payment due dates, the technician must enter into CAPS(W) the date the invoice was received in the designated billing office. The payment office can only use the designated billing office's date stamp when determining the invoice receipt. If it can not be clearly determined that the date stamp was affixed to the invoice by the designated billing office, the payment office is required by 5 C.F.R. Part 1315 to use the date placed on the invoice by the vendor. Invoices that were sent directly to DFAS Kansas City were usually properly date-stamped. However, when an invoice was sent to an activity other than DFAS Kansas City, it was often difficult to determine whether the date stamp was affixed to the invoice by the billing office designated in the contract or by another installation activity. The date stamp was often just a date affixed to the invoice without any designation as to which office the stamp belonged. In these instances, DFAS Kansas City should have used the date of invoice in determining payment dates.

**Invoices Sent to Installations.** Many invoices submitted for payment were improperly sent to a Marine Corps activity rather than directly to the DFAS Kansas City payment office. Contracting officers should require that vendors send invoices to a base-level activity only when a requirement exists for that activity to certify what was being billed (such as construction payments). In all other cases, the contracting officer should require that the invoices be sent directly to DFAS Kansas City. Sending invoices to installations created an unnecessary requirement that slowed the payment process, increased lost discounts, and increased the probability that interest would be due the vendor.

**Improvements Required to Invoice Processing.** To improve internal controls over the processing of invoices, DFAS must establish business rules that require invoices to comply with 5 C.F.R. Part 1315 requirements. Invoices that do not meet all requirements of a proper invoice should be returned within 7 days to the vendor with a request that a corrected invoice be submitted. Marine Corps contracting officers should ensure that contracts clearly identify



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that each invoice must include a contract number, invoice number and date, and a clear description of the goods or services provided by the vendor. They should also reduce the number of invoices being sent to designated billing offices other than DFAS Kansas City. However, when invoices are sent to designated billing offices outside the payment office, Marine Corps personnel should be directed to return them to the vendor for correction instead of altering the invoices to make them correct. In addition, invoices should be immediately date-stamped with a stamp that clearly identifies the designated billing office or that identifies the designated billing office through some other means.

**Receiving Reports.** The review of sample payments showed that 86 receiving reports did not properly support the payments. When projected to the entire population, about 7,315 receiving reports did not meet the 5 C.F.R. Part 1315 requirements for a proper receiving report and should have been returned. Appendix C contains details on sample projections. A payment was assessed as not properly supported if the receiving report did not identify receipt and acceptance dates; provide a description of the goods received or services performed; and provide a proper signature, printed name, address, and telephone number of the receiving or accepting official. Most receiving reports in the sample were missing the dates of receipt and acceptance and required signature information. Payments were often supported by a NAVCOMPT Form 2277, "Voucher for Disbursement and/or Collection," certified invoices, or locally developed forms which did not meet 5 C.F.R. Part 1315 requirements for proper receiving reports. DFAS Kansas City and the Marine Corps did not establish or enforce clear requirements on the elements required for documenting proper receipt and acceptance of goods and services. In addition, DoD Regulation 7000.14-R, volume 10, did not specify what a receiving report must contain to properly support a payment. The items required for a proper receiving report are contained in Appendix D.

**Receipt and Acceptance.** DFAS Kansas City made payments to vendors without documentation showing the actual date of receipt and acceptance of the goods and services. Receipt and acceptance of goods and services are two separate acts accomplished at the installation level to ensure that items and services contracted for are received and properly accepted. The sample showed that 31 of 101 payments were made without receipt and acceptance dates. Payments were often supported by NAVCOMPT Form 2277. This form showed the date an official signed the form but often did not specify when goods or services were received and accepted. Technicians would improperly use the date the form was prepared or signed by installation personnel as the receipt and acceptance dates. When the invoices were sent to Marine Corps activities before being submitted to the payment office as certified invoices, the dates of receipt and acceptance were recorded on the invoice using an ink stamp. However, the dates of receipt and acceptance were sometimes not recorded.

**Validity of Receipt and Acceptance Dates.** The receipt and acceptance dates recorded on the forms often did not reflect the actual dates of receipt and acceptance. We contacted receiving activities and analyzed invoice and contract data for most sample items and found that 22 of 101 payments were based on dates on receiving reports that did not reflect the actual date of acceptance. The dates on the receiving reports usually represented the date on which the receiver completed the document, not the actual date that the receiver

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accepted the goods or services. For example, invoice number 2000-CHR5053 was received at DFAS Kansas City as a certified invoice on June 15, 2000. The invoice and the contract stated that the services were incurred on February 16, 2000. The invoice date was March 14, 2000. However, the receiver recorded June 13, 2000, as the invoice receipt date, the acceptance date, the date the invoice was certified, and the date the invoice was sent to disbursing. The receiver told us that June 13, 2000, was the date that he had signed the invoice and the actual services had occurred earlier. The use of dates that do not reflect the actual dates of receipt and acceptance results in the computation of incorrect payment due dates.

**Description of Goods and Services Received.** The review of sample payments showed that 42 of 101 receiving reports reviewed either did not properly describe the goods and services received or identified goods or services that were inconsistent with the items contained in the contract. For example, a receiving report was sent in by Aberdeen Proving Ground that listed a receipt for “one pager service” for \$78.23. However, the invoice and the contract were for “service for four pagers” for a total of \$78.23. In another instance, the supply directorate at Marine Corps Air Station, Cherry Point, sent in a receiving report on a locally developed form. The form had two separate areas where a brief description of the goods or services should have been listed. However, no information was entered in either area. Since Marine Corps Air Station, Cherry Point, listed the invoice number on the form and sent it in with the invoice, DFAS Kansas City assumed that the goods listed on the invoice were actually received. Each receiving report is required to stand on its own and should describe what the activity actually received.

**Required Signature Information.** The review of sample payments showed that 68 of 101 receiving reports did not contain all the required signature information. Technicians often overlooked the requirement that receiving reports contain a signature, printed name, mailing address, and telephone number of the receiving or accepting official on each receiving report, and made payments without them. Incomplete information regarding the address or telephone number make it difficult for payment and contracting officials to subsequently verify acceptance in event of a dispute or other issue concerning the conditions of the goods received or services performed. By not enforcing the requirement for required signature information, DFAS Kansas City created an environment that could result in improper and fraudulent payments that could go undetected.

**Adequacy of Forms.** Most of the forms used to indicate receipt and acceptance of goods and services were not designed as receiving reports. Consequently, the forms did not contain space for the receiver to enter a name, address, title, and telephone number when receiving and accepting goods and services. NAVCOMPT Form 2277, locally developed forms, and certified invoices were primarily used as receiving reports. These documents did not contain all the information required by 5 C.F.R. Part 1315 for proper receiving reports. NAVCOMPT Form 2277 was designed as a payment voucher and should not have been used as a receiving report. Certified invoices should only be used in limited circumstances. DD Form 250, “Material Inspection and Receiving Report,” should be the primary means for documenting receipt and acceptance. The form, as revised in August 2000, met all 5 C.F.R. Part 1315

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requirements for a proper receiving report when completed correctly. Other standard forms, such as DD Form 1155, "Order for Supplies or Services," may also be used for making final payments, provided they contain all of the required data elements.

**Improvements Related to Receiving Reports.** DFAS should establish and enforce clear requirements on the elements required for documenting proper receipt and acceptance of goods and services. Mandating the use of DD Form 250 as the primary means for documenting receipt and acceptance would significantly improve compliance with 5 C.F.R. Part 1315 requirements. Guidance should be sent to Marine Corps activities emphasizing the requirements for proper receiving reports. The guidance should also emphasize that any receiving report that does not meet the requirements of a proper receiving report will be returned to the installation. Marine Corps managers must ensure that personnel at receiving activities are trained on the importance of recording proper dates to prevent the circumvention of the PPA.

**Contracts.** The review of 6 sample items showed that the payment was not supported by a contract document. The obligation documents used to make payments needed to contain sufficient information for the paying office to properly match invoice and receipt information and make the payment to the correct vendor. The six payments were considered improper since the contracting document could not be provided to us for review by the payment office and were not contained in the Electronic Data Access system. Other contracts were missing key elements such as payment terms, a valid Data Universal Numbering System (DUNS) number, or a valid Contractor Activity Government Entity (CAGE) code. For example, contracts for 48 of the sample items did not provide a valid DUNS number or CAGE code that could be used to ensure that the proper information was extracted from the Central Contractor Registry. DFAS had implemented a process for extracting the required information from the Central Contractor Registry into a Corporate EFT database. Since EFT is the primary means of payment, contracting offices need to make sure that all contracts provide a valid DUNS number or CAGE code. The Debt Collection Improvement Act of 1996 requires that payments be made electronically unless EFT requirements were waived under 31 C.F.R. Part 208.4.

## **Support for Miscellaneous Payments**

DoD Regulation 7000.14-R, volume 10, does not identify standard business rules for making properly supported miscellaneous payments and DFAS Kansas City had not identified the information necessary to properly support each of the approximately 30 types of miscellaneous payments. At a minimum, the payment office should ensure that a proper funding document exists that supports the vendor's claim against the Government and an employee at the installation acknowledges that the item or service being paid for was received and accepted. Although DFAS Kansas City tried to control miscellaneous payments, procedures were not consistently followed and did not ensure that only proper payments were made.

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**Requirements for Proper Support.** When miscellaneous payments were held to 5 C.F.R. Part 1315 requirements, the invoices, receiving reports, and obligating documents supporting the payments were frequently not proper. The sample showed that about 9,094 payments were made from May 1 through July 31, 2000, without sufficient support (see Appendix C). Improperly supported payments primarily occurred because receiving reports did not contain enough information to ensure that the obligating documents were proper or the goods or services were actually received and accepted by an authorized Government official. We recommended in Inspector General, DoD, Report No. D-2000-139, "Controls Over the Integrated Accounts Payable System," June 5, 2000, that the Under Secretary of Defense (Comptroller) amend DoD Regulation 7000.14-R, volume 10, to standardize the rules for making properly supported miscellaneous payments. The business rules also need to identify how to develop pseudo contract and invoice numbers; define what dates should be used for receipt of an invoice and receipt and acceptance of the goods or services; and reemphasize that receiving reports must identify the name, address, and phone number of the official accepting or authorizing the miscellaneous payments. The guidance for making vendor payments in DoD Regulation 7000.14-R, volume 10, had not been changed as of October 3, 2001. The Director, Commercial Pay Services, should develop procedures for making properly supported miscellaneous payments that can be used by payment offices until DoD Regulation 7000.14-R, volume 10, is changed.

**Pseudo Numbers for Miscellaneous Payments.** The process for establishing pseudo numbers for miscellaneous payments missing an obligating document or invoice number was inconsistent and increased the risk that duplicate payments could be made. Invoices related to miscellaneous payments usually did not contain an obligating document number or an invoice number. DFAS Kansas City made about 30 different types of miscellaneous payments. Consequently, technicians assigned to the accounts payable teams had to create pseudo contract and invoice numbers for entry in CAPS(W).

- For recurring monthly payments, such as purchase card and utility payments, pseudo contract numbers should have been developed that would have provided a history of the payments made for goods and services acquired during each fiscal year. Instead, DFAS Kansas City created a different pseudo contract number for each monthly purchase card and utility payment. Having different pseudo contract numbers for each monthly payment created some problems because DFAS Kansas City paid current charges on invoices with credit balances and past due amounts were not routinely reconciled to ensure that all payments had been properly recorded and overpayments did not occur. If pseudo contract numbers were standardized by fiscal year, technicians would have been able to easily determine whether past due amounts were valid, payments were posted to the correct account, and overpayments were made.
- Our sample contained five payments for childcare services. Technicians used three different methods for creating the pseudo invoice numbers entered in CAPS(W). A standard method of establishing the pseudo contract and invoice numbers should be part of the business rules for determining whether miscellaneous payments

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are properly supported. Once established, accounts payable technicians at DFAS Kansas City should follow the methodology.

Although DFAS Kansas City had established some guidance as to how to establish pseudo numbers, standard business rules had not been established for creating these numbers. The establishment of a separate team to work only miscellaneous payments would help to ensure that these payments were treated in a more uniform manner.

**Proper Receipt and Acceptance.** Most miscellaneous payments did not provide enough supporting information to ensure that the goods or services were actually received and accepted by an authorized Government official. The review of sample payments showed that the receiving reports supporting 89 miscellaneous payments did not contain the name, address, and telephone number of the Government official authorizing the miscellaneous payments. Payments should not be made unless the goods or services were clearly identified and the official's name, address, and telephone number are on the supporting documentation or on a signature card on file in the payment office.

## **Improper Payments**

Our sample showed that 37 of 208 payments were considered improper because the vendor was paid the incorrect amount or the payment should not have been made based on the supporting documentation provided. When projected across the population, this would result in between 2,045 and 4,680 improper payments. We considered payments to be improper when either the amount paid to the contractor was incorrect, the proper supporting documentation was not found, or the payment was not paid via EFT as required by the contract. For example, DFAS Kansas City overpaid 13 invoices and underpaid 5 invoices. The underpayments often occurred because DFAS Kansas City miscalculated the payment dates and computed interest incorrectly. The payments were not actually made until 1 or more days after the computed pay dates. Eight other payments were made to contractors by check even though the contractor was properly registered in the Central Contractor Registry. In these cases, the law required the payment be made via EFT. In another case, DFAS Kansas City improperly used a DD Form 1556, "Request, Authorization, Agreement, Certification of Training and Reimbursement," to support a payment of \$147,600 to a vendor for training. DoD Regulation 7000.14-R, volume 10, states that DD Form 1556 should only be used to make payments up to \$25,000.

## **Summary**

DFAS Kansas City and Marine Corps managers need to address proper support for payments they make to vendors and individuals. 5 C.F.R. Part 1315 contains strict requirements for what constitutes properly supported payments made under the PPA. For prompt payment, invoices received from vendors should meet all requirements of a proper invoice. Invoices that fail to meet the standards need to be immediately returned to the vendor for correction. Marine Corps activities should perform receipt and acceptance actions immediately upon delivery of any

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product or service and submit completed paperwork to the payment office. Documents used for receipt should contain all required information or be returned for correction. Only the originating activity should alter documents supporting payments, and the documents should clearly state that the correction was made by that activity. Other activities should not be authorized to make corrections to payment documents. Contracting office personnel should write contracts that clearly provide all data needed for payment. Contracts should detail the items or services being purchased so invoices and receiving reports can be validated. Miscellaneous payments require assurance that the items were approved for purchase and received by an authorized Government official. The Under Secretary of Defense (Comptroller) still needs to amend DoD Regulation 7000.14-R, volume 10, to discontinue allowing exceptions to requirements for a proper invoice, specify what a receiving report must contain to properly support a payment, and standardize the rules for making properly supported miscellaneous payments. The Director, Commercial Pay Services, should issue interim guidance until DoD Regulation 7000.14-R, volume 10, is changed. Marine Corps managers must ensure that personnel at receiving activities are trained on the importance of recording proper dates to prevent the circumvention of the PPA.

## **Recommendations, Management Comments, and Audit Response**

**B.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics, in coordination with the Director, Defense Finance and Accounting Service, and the Military Services, require the use of the DD Form 250, “Material Inspection and Receiving Report,” as the primary means for documenting receipt and acceptance of goods and services.**

**Under Secretary of Defense for Acquisition, Technology, and Logistics Comments.** The Director, Defense Procurement, concurred and stated that she will request that the Defense Acquisition Regulations Council revise DFARS subpart 232.9 to specify the use of the DD Form 250 as the primary means for documenting receipt and acceptance of goods and services.

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred with the recommendation and stated that her office will require the use of DD Form 250 if policy is issued by the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense (Comptroller).

**Audit Response.** The Director, Defense Procurement, comments were responsive. The Director, Defense Procurement, did not include an estimated completion date for corrective action. We request that the Director, Defense Procurement, provide us with an estimate completion date in response to the final report. The DFAS comments were responsive.

**B.2. We recommend that the Director, Commercial Pay Services, issue interim guidance until DoD Regulation 7000.14-R, volume 10, is changed. The guidance should discontinue exceptions to the requirements for a proper**

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**invoice, specify what a receiving report must contain to properly support a payment, and standardize the rules for making properly supported miscellaneous payments.**

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred and stated that DFAS will ensure that vendor payment personnel are aware of what constitutes a proper invoice and receiving report and the required support for miscellaneous payments. The Director also stated that DFAS will continue to use judgement on returning invoices and receiving reports with minor flaws that do not distract from the validity of the contract, receiving report, and invoice being in agreement.

**Audit Response.** The DFAS comments were partially responsive. OMB guidance contained in 5 C.F.R. Part 1315 clearly defines what constitutes a proper contract, invoice, and receiving report. DFAS payment offices must comply with these requirements and return supporting documents that do not meet requirements to the originator for correction. Further, the DFAS comments did not sufficiently address the need to develop standard rules for making miscellaneous payments. We request that DFAS reconsider its position on the recommendation and provide comments to the final report.

**B.3. We recommend that the Director, Commercial Pay Services, in conjunction with the Marine Corps:**

**a. Develop stringent procedures for accepting invoice receipt dates affixed outside the payment office. Procedures should ensure that the payment office can determine that the designated payment office date-stamped the invoice.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS will coordinate with the Marine Corps to establish a procedure for date-stamping invoices and how DFAS will handle invoices received from the Marine Corps without a date stamp.

**Marine Corps Comments.** The Marine Corps did not provide comments to the draft of this report. Therefore, we request that the Marine Corps provide comments on the final report.

**b. Return all invoices to vendors that do not meet payment requirements.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS Kansas City had developed a procedure to return all improper invoices. In addition, the Marine Corps Liaison Office was provided with guidance on the requirements for a proper invoice. Any invoice not meeting the requirements of 5 C.F.R. Part 1315.9(b) will be returned.

**Marine Corps Comments.** The Marine Corps did not provide comments on the draft of this report. Therefore, we request that the Marine Corps provide comments on the final report.

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**c. Develop and issue guidance to Marine Corps activities identifying the standards for proper receipt and acceptance of Government goods and services.**

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred with the recommendation and stated that DFAS provided the Marine Corps Liaison Office with information on what constitutes a proper receiving report. However, the Director stated that DFAS does not issue guidance to Marine Corps activities.

**Audit Response.** The DFAS comments were partially responsive. The Director, Commercial Pay Services, is responsible for ensuring that DFAS Kansas City ensures proper receipt and acceptance of goods and services before making payments. Therefore, DFAS must work with Marine Corps managers to ensure that proper guidance is issued to receiving activities on the standards for proper receipt and acceptance. We request that DFAS reconsider its position and provide comments on the final report.

**Marine Corps Comments.** The Marine Corps did not provide comments on the draft of this report. Therefore, we request that the Marine Corps provide comments on the final report.

**d. Provide training to personnel at receiving activities on the importance of providing payment offices properly completed receiving reports within 5 days of acceptance of goods and services.**

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred with the recommendation and stated that DFAS does not provide training to Marine Corps activities. However, the Director stated that DFAS will assist the Marine Corps in developing and presenting training on the importance of completing receiving reports accurately and providing them to DFAS within 5 days of acceptance of goods or services.

**Audit Response.** The DFAS comments were responsive. DFAS needs to work with the Marine Corps to ensure that receiving activities provide DFAS with proper receiving reports in a timely manner.

**Marine Corps Comments.** The Marine Corps did not provide comments on the draft of this report. Therefore, we request that the Marine Corps provide comments on the final report.

**B.4. We recommend that the Deputy Chief of Staff for Installations and Logistics, Marine Corps, ensure that all contracting documents provide the information necessary for making proper payments, including:**

**a. Specifications that invoices include a contract number, invoice number and date, and clear description, by contract line item, of what the vendor is invoicing for;**

**b. Directions to avoid sending invoices directly to installations unless the invoices require certification; and**



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**c. Accurate Data Universal Numbering System numbers and Contractor Activity Government Entity codes.**

**Marine Corps Comments.** The Marine Corps did not provide comments on the draft of this report. Therefore, we request that the Marine Corps provide comments on the final report.

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## **C. Vendor Payment Office Structure and Practices**

The structure and business practices of the vendor payment office at DFAS Kansas City did not provide efficient and effective controls over vendor payments. Despite actions taken to segregate duties and improve accountability over documents, problems continued to exist because:

- positive control over payment documents had not been achieved,
- supporting documents were not held to proper standards and returned to the originating activities when required,
- certification officials did not adequately review all payments, and
- responsive actions were not taken to correct previously identified problems and reviews of payment vouchers were not periodically performed.

As a result, DFAS Kansas City did not ensure that improperly supported and erroneous payments would be detected and corrected before payment.

### **Prior Review of Vendor Payment Operations**

On April 23, 1999, DFAS Arlington reported on a review conducted on vendor payment operations at DFAS Kansas City. DFAS Arlington recommended that DFAS Kansas City eliminate the mailroom in the vendor payment office and relocate mailroom functions to the centralized mailroom; track invoices; restrict the ability to change “remit to” information and update contract data to contract input technicians; and prohibit certification officials from making changes to invoices, receiving reports, contracts, and payment vouchers.

In FY 2000, DFAS Kansas City reorganized some of its business practices for making vendor payments. Technicians in the administrative assistance section became solely responsible for entering contract and vendor maintenance data into CAPS(W). DFAS Kansas City also limited the CAPS(W) access of lead voucher examiners and supervisors who certified payments on each of the accounts payable teams.

### **Office Structure and Business Practices**

DFAS Kansas City failed to develop efficient and effective business practices within its vendor payment office that ensured proper document control and segregation of duties. Until DPPS and related initiatives aimed at processing

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payment information in an automated environment can be effectively implemented, DFAS Kansas City needs to establish a vendor payment office that:

- receives and date stamps, immediately upon receipt, all incoming documents in a secure centralized mailroom outside the vendor payment office;
- has a document management section that is the focal point for receipt, validation, and control of all documentation supporting vendor payments;
- ensures that all payments are properly certified; and
- works effectively with Marine Corps customers to obtain receiving reports for goods and services promptly upon receipt and acceptance.

**Positive Control Over Incoming Documentation.** Although DFAS Kansas City changed its document control process, it did not effectively control documents supporting vendor payments. DFAS Kansas City had only limited visibility and control over the documents, even after the documents were entered into CAPS(W). Mailroom operations should be moved to the centralized mailroom, and a document management section should be established to effectively track, control, and screen all documents supporting payments.

**Mailroom Operations.** The mailroom in the administrative assistance section was unsecured and provided little positive control over incoming documents. Positive control over incoming documents is essential. DFAS Kansas City had a secure centralized mailroom outside the vendor payment office that could receive and date-stamp all incoming vendor payment documents. In April 1999, DFAS Arlington recommended that DFAS Kansas City relocate the mailroom in the vendor payment area to the centralized mailroom along with facsimile machines receiving vendor payment documents. This change would have allowed all incoming documents to be received and date-stamped outside of the vendor payment office. However, DFAS Kansas City did not make the recommended changes and continued to maintain a mailroom within the administrative assistance section that opened and date-stamped the mail. Mail from the U.S. Postal Service was received by the central mailroom, sorted, and sent unopened to the administrative assistance section. Packages from courier services usually bypassed the central mailroom and were delivered directly to the administrative assistance section. Facsimile machines that received vendor payment documents were located in the administrative assistance section. The mailroom in the administrative assistance section was not in a secured area and technicians were allowed to pick up facsimile documents without ensuring that they were properly date-stamped. Since the date stamp on the invoice is a key element in determining prompt payment requirements, DFAS Kansas City needed to move the opening and date-stamping of all incoming vendor payment documents to the centralized mailroom.

**Document Management.** DFAS Kansas City did not effectively track, control, and screen all documents supporting payments. Beginning in January 2000, DFAS Kansas City required the administrative assistance section to open and log all incoming documents into a spreadsheet and then pass them on

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to the payment technicians. However, documents were not adequately controlled and the screening of documents to determine compliance with 5 C.F.R. Part 1315 requirements did not take place early enough in the payment process to return the documents and make corrections within the prompt payment timeframe.

**Tracking Documents.** The method used by the administrative assistance section to track documents was slow and ineffective. The administrative assistance section entered into a spreadsheet all documents received in the vendor payment office. It used the spreadsheet to track documents; however, the spreadsheet did not contain detailed information as to where documents could be found within the vendor payment office. Between October 31 and November 9, 2000, we observed that mail sat in crates in the administrative assistance section for at least 5 days awaiting entry into the spreadsheet. Accounts payable technicians stated that they used the spreadsheet when a vendor called about the status of a payment. They reviewed the spreadsheet to determine whether the invoice had been received. However, they stated that they often did not search the office for missing documents. Instead, they directed the vendor to fax in a new invoice. One technician told us that the date stamp on the new facsimile document was used in computing the payment due date rather than the invoice receipt date for the original invoice in the tracking spreadsheet. To test controls over the tracking of documents, we obtained 10 invoices from the mailroom on October 31, 2000, and traced them through the vendor payment process until November 9, 2000. In order to locate each of the invoices, technicians had to sort through stacks of documents in and around their desks. While we eventually located the invoices, 7 of the 10 invoices had not yet been entered into CAPS(W). The spreadsheet should have been used to locate documents within DFAS Kansas City and determine invoice receipt dates for lost documents. A measurable standard for entering documents in CAPS(W) should also be established and monitored.

**Controlling Documents.** DFAS Kansas City did not effectively control the payment folders containing invoices, receiving reports, and obligation documents. Incoming payment documents were loosely transferred between the administrative assistance section and accounts payable teams, often more than a week after arriving at DFAS Kansas City. Accounts payable technicians validated invoices and receiving reports against the contract and the other supporting documentation, then placed the documents in payment folders. In November 2000, we observed stacks and boxes of payment folders, invoices, and receiving reports on and around technicians' desks. Usually these piles were sorted according to whether the documents needed to be entered into CAPS(W), the payment awaited prevalidation, or the payment needed to be computed. To locate a payment folder, supervisors had to find the technician responsible for entering the data into CAPS(W) and then have that technician look through the stacks of documents in and around the desk or in nearby filing cabinets. To effectively control documents supporting vendor payments, DFAS Kansas City needs to establish and maintain payment folders in a document management section. Maintaining the folders in a document management section would prevent the flow of loose documentation within DFAS Kansas City. By reviewing operations at other vendor payment offices using CAPS(W), two methods were identified that could be used within the document management section for maintaining effective control over payment documents. The

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preferable method was to have technicians enter data into CAPS(W). Once the data were entered, the payment folder could then be signed out to a technician on an accounts payable team who would compute the payment after verifying the data had been properly entered into CAPS(W). A less desirable, but acceptable, means for managing documents and payments was to create a database for tracking documents that had been signed out to accounts payable teams for processing. Once data were entered into CAPS(W), the technician would return the folder to the document management section. Folders would be returned to the technician only when additional documents required entry into CAPS(W) or the payment needed to be computed. At DFAS Kansas City, the accounts payable teams entered invoices and receiving reports into CAPS(W), computed payments, and certified payments. Keeping the payment folders under the control of the document management section makes it easier to locate payment folders and other documents.

**Screening Documents.** The administrative assistance section did not screen incoming documents for compliance with 5 C.F.R. Part 1315 requirements. An effective document management section should conduct a detailed screening of invoices, receiving reports, and obligation documents. Deficiencies in payment documents should be identified and promptly returned to originators so as to minimize unnecessary rework later in the payment process. To ensure incoming documents are effectively screened, personnel with sufficient vendor payment experience and knowledge of regulatory procedures should be assigned to the document management section. At DFAS Kansas City, document screening did not occur until the accounts payable technician attempted to enter the document into CAPS(W). By not screening invoices and receiving reports upon receipt, payments could be delayed and interest paid when technicians discovered errors when entering the data into CAPS(W). As stated previously, only 3 of the 10 invoices we traced through the payment process were entered into CAPS(W) within 9 days of receipt. 5 C.F.R. Part 1315 requires that improper invoices be returned to vendors within 7 days. Deficiencies detected in other payment documents should have resulted in those documents being returned to the originators. However, technicians were often reluctant to return documents. Delays in identifying deficiencies in invoices and receiving reports could result in the payment of interest to vendors.

**Payment Processing.** DFAS Kansas City had not ensured that quality reviews of supporting documents were fully performed by technicians on the three accounts payable teams who entered invoices and receiving reports into CAPS(W). In addition, certification officials were not organizationally independent and did not always adequately review the documents supporting vendor payments.

**Quality Reviews of Supporting Documents.** Accounts payable technicians did not perform appropriate reviews to determine whether invoices and receiving reports complied with 5 C.F.R. Part 1315 requirements. Accounts payable technicians usually returned invoices for reasons such as missing descriptions, missing contract numbers, and overbilling. However, the technicians seldom returned invoices with poor descriptions of goods and services, that were inconsistent with contracts, or that had been altered. The technicians did not ensure that invoices and receiving reports met all 5 C.F.R. Part 1315 requirements. Technicians seldom questioned the need for required

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information missing on receiving reports or returned them for correction. Finding B discusses the reasons why payments in our sample were not properly supported. Appendix D identifies the requirements in 5 C.F.R. Part 1315.

**Certification of Payment Vouchers.** Certification officials did not thoroughly review all payments and supporting documents to ensure that they were accurate, proper, and correct for payment. Supporting documents were often missing some of the information required to make proper payments. In addition, certification officials were not organizationally independent.

**Certifying Procedures.** Certification officials did not always closely review the documents supporting vendor payments to ensure that they were proper. As discussed in finding B, many problems were identified with the invoices, receiving reports, and obligating documents that supported vendor payments made by DFAS Kansas City. Our sample showed that 41 payments were considered improper because the vendor was paid the incorrect amount or the payment should not have been made based on the supporting documentation provided. Certification officials did not detect the problems with the payments. DFAS Kansas City also used a sampling plan that was incomplete and not properly approved to certify vendor payments under \$2,500. To alleviate the certification workload, certification officials used statistical sampling procedures for examining a random number of payment vouchers scheduled for payment. DoD Regulation 7000.14-R, volume 5, chapter 33, "Accountable Officials and Certifying Officers," August 1998, allowed for a prepayment sampling plan for payments provided the plan was approved by the Office of the Under Secretary of Defense (Comptroller) or a designee. GAO Policy and Procedures Manual, Title 7, "Fiscal Guidance," May 18, 1993, limits this authority to payments under \$2,500. DFAS Kansas City had not requested nor received approval for its plan. The plan was based on information developed by DFAS Arlington. However, the plan was incomplete and not always followed. DFAS Kansas City did not use appropriate sampling techniques and the results of the sampling were not analyzed to determine whether the risk level remained acceptable or whether certification of individual payments should be resumed. Although the use of statistical sampling may be justified, DFAS Arlington needs to closely monitor the development and use of statistical sampling plans by vendor payment offices. We believe that a separate plan for sampling miscellaneous payments may need to be developed. Miscellaneous payments were subject to a higher risk of being improperly or erroneously paid because of the lack of standard procedures for making properly supported miscellaneous payments, especially those missing obligation document numbers and invoice numbers.

**Organizational Placement of Certification Officials.**

Certification officials were not organizationally independent. Certification officials were the lead technicians and supervisors assigned to the accounts payable teams. Undue influence could be placed on technicians by lead technicians and supervisors. In August 2000, the DFAS Arlington Internal Review Office substantiated allegations of password sharing among technicians on accounts payable teams and a certification official at DFAS Kansas City. Internal controls for separation of duties were circumvented when the supervisor asked for and obtained the passwords of her subordinates. Her actions allowed one individual to be able to enter and approve payments. Although fraud was not found, the potential existed. Certification officials should be removed from the

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accounts payable teams and reassigned to a separate section in the vendor payment office. Establishing a separate group of certification officials would minimize the potential for undue influence and allow for an independent review of all payments to ensure compliance with 5 C.F.R. Part 1315 requirements.

**Receiving Reports.** DFAS Kansas City was not using an available CAPS(W) report to obtain missing receiving reports. A significant cause of interest payments made by DFAS Kansas City was due to the inability to obtain proper receiving reports from receiving activities at installations. As of October 24, 2000, DFAS Kansas City had 527 invoices, valued at \$4.97 million, that were more than 30 days old, but had not been paid because of missing receiving reports. DFAS Kansas City did not have people designated to aggressively work with receiving activities to obtain missing documents or to be a focal point to resolve problems identified in the payment process. Technicians stated that they had other higher-priority work that took precedence. CAPS(W) report, "Invoices Without Receiving Reports," should have been used to identify invoices that had been entered into CAPS(W) but were missing receiving reports. The report should have been generated weekly and sent to receiving activities. DFAS Kansas City had created a separate spreadsheet based on information from CAPS(W) for prevalidating payments. Although the spreadsheet was provided to financial managers, it was not sent to receiving activities. We selected 10 invoices on the CAPS(W) report, "Invoices Without Receiving Reports," as of October 30, 2000, and contacted receiving activities as necessary. The review determined that DFAS Kansas City and Marine Corps receiving activities could do more to make prompt and accurate payments.

- We contacted Quantico Marine Corps Base, Quantico, Virginia, for receiving reports for five invoices for monthly maintenance services from October 1999 through August 2000. The receiving activity provided us with a receiving report for the invoices covering services from October 1999 through April 2000. After we provided the receiving report to the accounts payable technician, the invoices were paid with interest. As of April 17, 2001, a receiving report had not been provided for services from May through August 2000.
- DFAS Kansas City received five invoices between April 18 and 20, 2000, for receipt of goods. The receiving activity told us that a receiving report had been sent to DFAS Kansas City. The copy faxed to us indicated the receipt of some goods on April 12, 2000. We informed the receiving activity that the receiving report did not meet the requirements of a proper receiving report and asked them to send in a more detailed receiving report. The Vendor Inquiry System showed on February 17, 2001, that the invoices were paid on February 7, 2001, without interest. The invoice receipt date was January 16, 2001, and receipt and acceptance occurred on December 12, 2000. Further analysis showed that DFAS Kansas City returned the invoices to the vendor on January 2, 2001, because the vendor had changed its name in June 2000. Since DFAS Kansas City personnel had valid invoices that were date-stamped in April 2000 and they failed to return them to the vendor within 7 days of receipt, they

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should have recalculated the invoice receipt date based on the number of days they held on to the invoices. The vendor was due about \$100 in interest.

DFAS Kansas City and the Marine Corps need to work together to ensure that receiving reports for goods and services are obtained promptly upon receipt and acceptance. CAPS(W) report, "Invoices Without Receiving Reports," should be routinely used to identify and obtain missing receiving reports. Resolving unpaid invoices should become more of a joint effort that is monitored closely to ensure that prompt and accurate payments are made. DFAS Kansas City should have individuals designated to review reports that indicate problems with documents needed to support payments and work with customers to receive missing information.

## **Management Oversight**

Operational reviews directed by DFAS Arlington identified problems in vendor payment operations at DFAS Kansas City. However, DFAS Kansas City did not take appropriate actions in response to those previously identified problems. For example, mailroom functions were not relocated to the centralized mailroom and certification officials were able to make changes to vendor payment information. Also, post-payment reviews were not routinely performed to determine whether payments were properly supported and made correctly. Post-payment reviews of payment vouchers would help to identify problems with making properly supported vendor payments. DFAS needed to ensure that prompt corrective actions were taken in response to recommendations of operational review teams.

## **Summary**

DFAS Kansas City had improved the segregation of duties by establishing a new vendor payment structure and limiting access to CAPS(W). However, the Director, Commercial Pay Services, needed to change the business structure and practices at the DFAS Kansas City for making vendor payments to ensure that documents are properly controlled, information in CAPS(W) is correct and properly supported, and vendors are paid promptly and accurately. Emphasis needs to be placed on determining whether supporting documents comply with all requirements. If proper invoices, receiving reports, and obligation documents are not received, prompt actions must be taken to return the documents to originators and request proper documentation. DFAS Kansas City and the Marine Corps must make a concerted effort to ensure that proper receiving reports for goods and services are obtained promptly upon receipt and acceptance. To maintain proper segregation of duties, DFAS Kansas City should make sure that no one individual can enter or direct the entry of all data needed to make payments. Certification officials should be organizationally independent to ensure that all payments are accurate, proper, and legal. Responsive actions need to be taken to correct previously identified problems and payment vouchers should be reviewed to identify problems with making properly supported



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payments. DFAS must also develop a comprehensive program to provide personnel assigned to the vendor payment office with appropriate training on the regulatory requirements for making properly supported payments.

## **Recommendations, Management Comments, and Audit Response**

**C. We recommend that the Director, Commercial Pay Services, change the business structure and practices at the Defense Finance and Accounting Service Kansas City for making vendor payments using the Computerized Accounts Payable System for Windows. Specifically:**

**1. Receive and date-stamp all incoming documents supporting vendor payments in a central location outside the vendor payment office.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that the receipt and date-stamping of incoming hard-copy payment documents was moved to the centralized mailroom.

**2. Establish a document management section to become the focal point for receipt, screening, and control of all documents supporting vendor payments.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS will develop a standard organization structure for all vendor payment sites. The new structure will incorporate organization and system controls that ensure adequate separation of duties and controls over documents.

**3. Segregate the ability to enter information related to invoices and receiving reports into the Computerized Accounts Payable System for Windows from the ability to enter purchase order data. Alternatively, segregate the ability to enter invoices, receiving reports, and obligating documents from the ability to compute payments.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS will review system access profiles in CAPS(W) to ensure that they provide adequate separation of duties.

**4. Develop standards for entering invoices and receiving reports into the Computerized Accounts Payable System for Windows.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS will modify employees' standards to address the quantity and quality of invoices and receiving reports entered into CAPS(W).

**5. Organizationally separate certification officials from the accounts payable teams. Establish a separate section within the vendor payment office for certification officials who ensure that payments are legal, proper, and correct before they are certified.**

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**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS will develop a standard organization structure for use by all vendor payment sites. The new structure will ensure increased controls over certification duties.

**6. Certify individual vendor payments until a sampling plan for certifying a representative sample of contract and miscellaneous payments is developed and approved.**

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred and stated that DFAS will use the DFAS Arlington statistical sampling guidance that is currently in coordination for performing pre- and post-payment reviews.

**Audit Response.** The DFAS comments were partially responsive. The statistical sampling guidance developed by DFAS Arlington has not been approved by the Office of the Under Secretary of Defense (Comptroller). Until DFAS Kansas City has an approved statistical sampling plan, DFAS Kansas City should manually certify all payment vouchers. We request that DFAS reconsider its position and provide additional comments to the final report.

**7. Designate individuals to review reports that indicate problems with documents needed to support payments and work with customers to receive missing information. Establish a reports and reconciliation section to handle payment anomalies and reconcile system reports.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that supervisors review and disseminate reports identifying invoices missing receiving reports and obligations to the Marine Corps Liaison Office. Supervisors will work with the Marine Corps Liaison Office to obtain missing documents.

**Audit Response.** The DFAS comments were generally responsive. The standard organization structure that DFAS is developing should include a reports and reconciliation section.

**8. Perform monthly post-payment voucher reviews to ensure that vendor payments are properly supported and to identify problem areas.**

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred and stated that post-payment reviews will revert to monthly if the quarterly reviews identify an unacceptable level of compliance.

**Audit Response.** The DFAS comments were responsive. We agree that quarterly reviews should be performed only if they show that a very high percentage of the payments are properly supported and made correctly. Otherwise, more frequent reviews would be appropriate.

**9. Develop a comprehensive training program for making properly supported vendor payments.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS Kansas City developed a new employee training program and

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provided refresher training to vendor payment personnel. The refresher training covered the problem areas identified during the audit. The training program will be updated as needed.

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## Appendix A. Audit Process

### Scope

**Work Performed.** The controls associated with CAPS(W) and its computation of vendor payments at DFAS Kansas City were evaluated including the procedures that DFAS Kansas City used to make vendor payments to Marine Corps customers. During FY 2000, 75,861 vendor payments, valued at about \$1.2 billion were made by DFAS Kansas City using CAPS(W). A random sample of 208 of the 17,983 payments made from May 1 through July 31, 2000, was reviewed. We considered the organizational and system changes made by DFAS Kansas City since July 31, 2000.

**General Accounting Office High-Risk Area.** GAO identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management and Information Management and Technology high-risk areas.

### Methodology

To assess controls over CAPS(W), we reviewed the system access lists, compared the access levels of employees to their job position, observed system access by users, and discussed procedures for controlling and changing passwords with system personnel. We also reviewed system manuals and discussed the functionality of CAPS(W) with systems personnel at DFAS Kansas City and Indianapolis.

From data files obtained from DFAS Kansas City, we randomly selected 208 vendor payments made using CAPS(W) from May 1 through July 31, 2000. See Appendix C for the sampling methodology. From October 2000 through April 2001, we reviewed the operations and support for the payments made at DFAS Kansas City to determine whether payments were properly authorized, approved, and supported. Obligation documents, invoices, receiving reports, and payment vouchers were reviewed for accuracy and propriety. We compared payment vouchers to source documents to determine whether payments were properly supported, in the correct amount, cited proper appropriation data, based on the correct invoice receipt dates and receipt and acceptance dates, were properly certified, and sent to the correct vendor via the required means of delivery.

We also reviewed guidance for making vendor payments and compared guidance issued by DFAS Arlington and Kansas City with guidance in 5 C.F.R. Part 1315, the FAR; DFARS subpart 232.9; and DoD Regulation 7000.14-R, volumes 5 and 10. We contacted selected receiving activities to determine whether they received goods and services for which payments had been made. We also contacted several vendors to determine the status of invoices and whether payments had been received.

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We assessed improvements in vendor payment operations by assessing changes in guidance and the actions taken by DFAS Kansas City and the Marine Corps in response to prior reviews of vendor payment operations. We held discussions with key DFAS Kansas City personnel and Marine Corps financial managers. We also determined actions taken to resolve older unpaid invoices by judgmentally selecting 10 invoices from a listing of unpaid invoices. We determined the status of the invoices, identified problems that delayed the payment of the invoices, and for those invoices that were paid as of the date of our visit, we reviewed the documents supporting the payments.

**Use of Computer-Processed Data.** Although we relied on computer-processed data from CAPS(W), we did not evaluate the adequacy of all the system's general and application controls. We determined that password controls over CAPS(W) were not adequate and data entered at one location could be altered or removed by individuals at other locations. However, we established data reliability for the payments we reviewed by comparing data output to source documents and through discussions with vendors and receiving activities. Our tests disclosed that the data were sufficiently reliable to support the audit conclusions and recommendations.

**Audit Type, Dates, and Standards.** This financial-related audit was performed from October 2000 through May 2001. We did our work in accordance with generally accepted Government auditing standards except that we were unable to obtain an opinion on our system of quality control. The most recent external quality control review was withdrawn on March 15, 2001, and we will undergo a new review.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

## **Management Control Program Review**

DoD Directive 5010.38 "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the management controls.

**Scope of Review of the Management Control Program.** We reviewed the adequacy of management controls over vendor payments made using CAPS(W). Specifically, we reviewed management controls over vendor payments at DFAS Kansas City. We also reviewed management's self-evaluation of those controls.

**Adequacy of Management Controls.** A material management control weakness as defined by DoD Instruction 5010.40 was identified in controls associated with making vendor payments using CAPS(W). Management controls were not adequate to control access to CAPS(W) and to ensure that all vendor payments were properly supported and made for correct amounts. Recommendations A.,

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B., and C., if implemented, will improve controls over vendor payments. A copy of the report will be provided to the senior official in charge of management controls in DFAS.

**Adequacy of Management's Self-Evaluation.** DFAS Kansas City identified vendor payments as an assessable unit and, in our opinion, correctly identified the risk associated with vendor payments as high. DFAS Kansas City reported problems with controls over the processing of CAPS(W) payments as material management control weaknesses in its FY 1999 Annual Statement of Assurance. DFAS Kansas City reported in its FY 2000 Annual Statement of Assurance that it had improved controls over the processing of CAPS(W) payments, but reported a lack of internal controls over access to CAPS(W) as a material management control weakness. DFAS Kansas City indicated that resolution of the system access problems was outside its control and requested assistance in resolving them from DFAS Arlington. We disagree with the assertions made in the FY 2000 Annual Statement of Assurance that DFAS Kansas City had corrected control weaknesses in vendor payment operations and taken all the actions it could to improve access to CAPS(W). As highlighted in this report, the management control weaknesses related to CAPS(W) in the FYs 1999 and 2000 Annual Statements of Assurance still exist. Additional system weaknesses also exist that have not been reported. DFAS Kansas City should either correct identified material control weaknesses related to making payments using CAPS(W) or report them as a material management control weakness.

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## **Appendix B. Prior Coverage**

During the last 5 years, GAO and the Inspector General, DoD, have issued several audit reports discussing issues related to vendor payments.

### **General Accounting Office**

GAO Report No. GAO-01-309 (OSD Case No. 3029), "Excess Payments and Underpayments Continue to be a Problem at DoD," February 22, 2001

GAO Report No. GAO/AIMD-00-10 (OSD Case No. 1919), "Increased Attention Needed to Prevent Billions in Improper Payments," October 29, 1999

GAO Report No. GAO/AIMD-98-274 (OSD Case No. 1687), "Improvements Needed in Air Force Vendor Payment Systems and Controls," September 28, 1998

GAO Report No. GAO/OSI-98-15 (OSD Case No. 1687-A), "Fraud by an Air Force Contracting Official," September 23, 1998

### **Inspector General, DoD**

Inspector General, DoD, Report No. D-2000-139, "Controls Over the Integrated Accounts Payable System," June 5, 2000

Inspection General, DoD, Report No. 97-052, "Vendor Payments - Operation Mongoose, Fort Belvoir Defense Accounting Office and Rome Operating Location," December 23, 1996

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## Appendix C. Statistical Sampling Methodology

### Sampling Plan

**Sampling Purpose.** The purpose of the statistical sampling plan was to estimate the number of vendor payments that did not have proper documentation by type of payment and type of document. The statistical sampling plan was also used to estimate the number of improper payments, once it was determined that a payment was not properly supported. The payments were reviewed to determine whether documentation was adequate and complied with 5 C.F.R. Part 1315 requirements.

**Universe Represented.** DFAS Kansas City provided a database of vendor payments made using CAPS(W) from May 1 through July 31, 2000. The file contained records on 17,987 vendor payments. The total dollar value of the vendor payments in the population was \$290.6 million.

**Sampling Design.** The sampling design used to determine whether or not the vendor payments had proper documentation was a stratified attribute design. The population was divided into three strata: payments valued at less than \$2,500, payments valued at least \$2,500 but less than \$1 million, and payments valued at \$1 million or more. A total of 208 payments (101 contractual and 107 miscellaneous) were randomly selected: 130 from the first stratum, 60 from the second stratum, and 18 from the third stratum.

### Sampling Results

Table C-1 identifies the statistical estimates of vendor payments that were not properly supported by type of payment.

<b>Table C-1. Payments Not Properly Supported (99-Percent Confidence Level)</b>			
Type of Payment	Lower Bound	Point Estimate	Upper Bound
Contractual	5,921	7,511	9,100
Miscellaneous	7,457	9,094	10,731

We are 99-percent confident that from 5,921 to 9,100 contractual vendor payments were not properly supported. Also, we are 99-percent confident that from 7,457 to 10,731 miscellaneous vendor payments were not properly



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supported. Table C-2 identifies the statistical estimates of contractual vendor payments that were not properly supported by document type.

<b>Table C-2. Contractual Payments Not Properly Supported by Document Type (99-Percent Confidence Level)</b>			
Type of Document	Lower Bound	Point Estimate	Upper Bound
Invoices	1,671	2,916	4,160
Receiving Reports	5,727	7,315	8,904
Contracts	(17)	604	1,225

We are 99-percent confident that from 1,671 to 4,160 vendor payments were not properly supported due to improper invoices. We are 99-percent confident that from 5,727 to 8,904 vendor payments were not properly supported due to improper receiving reports. The estimates of vendor payments that were not properly supported by contract passes through zero; therefore, the estimate for contracts is not considered significantly different than zero and will not be used in the report. We are also 99-percent confident that from 933 to 3,053 payments were made using receiving reports containing inaccurate dates. Each of the individual estimates is projected at the 99-percent confidence level. However, taking a conservative approach, reviewing each of the 10 estimates as an independent projection, we estimate the overall confidence level for all 10 estimates simultaneously is approximately 90-percent.

Table C-3 identifies the statistical estimates of miscellaneous vendor payments that were not properly supported by document type.

<b>Table C-3. Miscellaneous Payments Not Properly Supported by Document Type (99-Percent Confidence Level)</b>			
Type of Document	Lower Bound	Point Estimate	Upper Bound
Invoices	(64)	463	990
Receiving Reports	6,985	8,614	10,244
Obligation Documents	251	1,032	1,813

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We are 99-percent confident that from 6,985 to 10,244 vendor payments were not properly supported due to improper receiving reports. We are 99-percent confident that from 251 to 1,813 vendor payments were not properly supported due to improper obligation documents. The estimates of vendor payments that were not properly supported by invoices passes through zero; therefore, the estimate for contracts is not considered significantly different than zero and will not be used in the report. Each of the individual estimates is projected at the 99-percent confidence level. However, taking a conservative approach, reviewing each of the 10 estimates as an independent projection, we estimate the overall confidence level for all 10 estimates simultaneously is approximately 90-percent.

Table C-4 identifies the statistical estimates of contractual and miscellaneous payments that were improper payments.

<b>Table C-4. Improper Payments (99-Percent Confidence Level)</b>			
Type of Payment	Lower Bound	Point Estimate	Upper Bound
Contractual	1,617	2,845	4,073
Miscellaneous	190	926	1,661

We are 99-percent confident that from 1,617 to 4,073 contractual payments were improper payments. Also, we are 99-percent confident that from 190 to 1,661 miscellaneous payments were improper payments. Improper payments were payments that should not have been made or were made for incorrect amounts. Specifically, improper payments included payments for unsupported or inadequately supported claims, overpayments, and underpayments.

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## Appendix D. Guidance on Supporting Documentation

The principal guidance used for making payments to vendors is the PPA, as implemented by OMB in 5 C.F.R. Part 1315, "Prompt Payment; Final Rule," September 29, 1999. The requirements for supporting documentation are further defined in FAR subpart 32.9, "Prompt Payment;" DFARS subpart 232.9, "Prompt Payment;" and DoD Regulation 7000.14-R, volume 10, "Contract Payment Policy and Procedures," November 1999.

On August 28, 2000, a proposed rule was published for comment in the Federal Register "Federal Acquisition Regulation; Prompt Payment and the Recovery of Overpayment; Proposed Rule." The proposed change revises the FAR to incorporate 5 C.F.R. Part 1315 and implements a GAO recommendation to require contractors who have been overpaid to notify contracting officers of overpayments. The FAR council must issue a Federal Acquisition Circular to change the FAR. DFARS subpart 232.9, also has not been changed.

In Inspector General, DoD, Report No. D-2000-139, "Controls Over the Integrated Accounts Payable System," June 5, 2000, we recommended that DoD Regulation 7000.14-R, volume 10, be amended to fully comply with 5 C.F.R. Part 1315 requirements and include standardized rules for making properly supported miscellaneous payments. DoD Regulation 7000.14-R, volume 10, has not yet been changed. The Under Secretary of Defense (Comptroller) stated that DoD Regulation 7000.14-R, volume 10, would not be changed until 5 C.F.R. Part 1315 is incorporated in the FAR.

DFAS Kansas City issued revised vendor pay standard operating procedures in October 2000. However, the DFAS Kansas City guidance did not include the requirements in 5 C.F.R. Part 1315.

**Invoices.** 5 C.F.R. Part 1315 requires that the vendor send an invoice to the designated billing office specified in the contract when goods are delivered or services performed. The designated billing office is required to immediately date-stamp the invoice and perform a review to determine whether the invoice is proper for payment. If the invoice is determined to be proper, it should be sent to the payment office for entry into CAPS(W) and payment. If determined to be improper, the invoice should be returned to the vendor within 7 days of receipt (for most invoices), identifying all defects that prevented payment and requesting that the vendor send a clearly marked corrected invoice to the designated billing office for payment.

Specifically, 5 C.F.R. Part 1315.9, "Required Documentation," states that:

(b) The following correct information constitutes a proper invoice and is required as payment documentation:

(1) Name of vendor;

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- (2) Invoice date;
  - (3) Government contract number, or other authorization for delivery of goods or services;
  - (4) Vendor invoice number, account number, and/or any other identifying number agreed to by contract;
  - (5) Description (including for example, contract line/subline number), price, and quantity of goods and services rendered;
  - (6) Shipping and payment terms (unless mutually agreed that this information is only required in the contract);
  - (7) Taxpayer Identification Number (TIN), unless agency procedures provide otherwise;
  - (8) Banking information, unless agency procedures provide otherwise, or except in situations where the EFT requirement is waived under 31 CFR 208.4;
  - (9) Contact name (where practicable), title and telephone number;
  - (10) Other substantiating documentation or information required by the contract.

In addition to these requirements, the proposed change to the FAR specifies EFT requirements and states that contractors should assign an identification number to each invoice.

DoD Regulation 7000.14-R, volume 10, allows exceptions to requirements for a valid invoice. DoD Regulation 7000.14-R, volume 10, states that it is not necessary for an invoice to be free of defects in order for it to be proper and create a valid demand on the Government; the approving activity determines whether a valid demand exists. These exceptions are contrary to 5 C.F.R. Part 1315 and FAR requirements. The chapters of DoD Regulation 7000.14-R have not been updated since 1996 and state that if inconsistencies exist between the FAR and the regulation, the FAR controls. In assessing whether an invoice was proper, we used 5 C.F.R. Part 1315 requirements. Specifically, invoices were considered improper if they did not contain a contract or obligating document number, or did not adequately describe what was purchased or the description was inconsistent with the contract. The FAR requires that an invoice that is missing required data be returned to the vendor within 7 days of receipt, which can make the needed corrections and resubmit a clearly marked corrected invoice. Consequently, invoices were also considered improper if they were altered.

**Receiving Reports.** 5 C.F.R. Part 1315 requires that receipt and acceptance be promptly recorded at the time of delivery of goods or completion of services. Receiving activities were required to submit a receiving report immediately upon each delivery of goods or completion of services unless the contract stated that partial payment was not authorized. Receiving activities were to forward a proper receiving

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report to the payment office by the fifth working day after acceptance. 5 C.F.R. Part 1315.9 states that:

(c) The following information from receiving reports, delivery tickets, and evaluated receipts is required as payment documentation:

- (1) Name of vendor;
- (2) Contract or other authorization number;
- (3) Description of goods or services;
- (4) Quantities received, if applicable;
- (5) Date(s) goods were delivered or services were provided;
- (6) Date(s) goods or services were accepted;
- (7) Signature (or electronic alternative when supported by appropriate internal controls), printed name, telephone number, mailing address of the receiving official, and any additional information required by the agency.

The proposed change to the FAR basically restates existing requirements for receiving reports. The proposed change states that:

(c) Authorization to pay. . . .The receiving report or other Government documentation authorizing payment must, as a minimum, include the following:

- (1) Contract number or other authorization for supplies delivered or services performed.
- (2) Description of supplies delivered or services performed.
- (3) Quantities of supplies received and accepted or services performed, if applicable.
- (4) Date supplies delivered or services performed.
- (5) Date that the designated Government Official -
  - (i) Accepted the supplies or services; or
  - (ii) Approved the progress payment request, if the request is being made under the clause at 52.232-5, Payments Under Fixed-Price Construction Contracts, or the clause at 52.232-10, Payment Under Fixed-Price Architect-Engineering Contracts.

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- (6) Signature, printed name, title, mailing address, and telephone number of the designated Government official responsible for acceptance or approval functions.

DoD Regulation 7000.14-R, volume 10, does not specify what a receiving report must contain to properly support a payment. Most items in the sample were missing the dates of acceptance and required signature information.

**Contracts.** To properly support a payment, the paying office must have a signed contract or other authorization document against which payment is being made. 5 C.F.R. Part 1315.9 states that:

- (a) The following information from the contract is required as payment documentation:
  - (1) Payment due date(s) as defined in Sec. 1315.4(g);
  - (2) A notation in the contract that Partial payments are prohibited, if applicable;
  - (3) For construction contracts, specific payment due dates for approved progress payments or milestone payments for completed phases, increments, or segments of the project;
  - (4) If applicable, a statement that the special payment provisions of the Packers and Stockyard Act of 1921 (7 U.S.C. 182(3)), or the Perishable Agricultural Commodities Act of 1930 (7 U.S.C. 499a(4)), or Fish and Seafood Promotion Act of 1986 (16 U.S.C. 4003(3)) shall apply;
  - (5) Where considered appropriate by the agency head, the specified acceptance period following delivery to inspect and/or test goods furnished or to evaluate services performed is stated;
  - (6) Name (where practicable), title, telephone number, and complete mailing address of officials of the Government's designated agency office, and of the vendor receiving the payments;
  - (7) Reference to requirements under the Prompt Payment Act, including the payment of interest penalties on late invoice payments (including progress payments under construction contracts);
  - (8) Reference to requirements under the Debt Collection Improvement Act (Pub. L. 104-134, 110 Stat. 1321) including the requirement that payments must be made electronically except in situations where the EFT requirement is waived under 31 CFR 208.4. Where electronic payment is required, the contract will stipulate that banking information must be submitted no later than the first request for payment.

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Many contracts were missing key elements such as payment terms, a valid DUNS number, or a valid CAGE code. Although the lack of this information did not make the contract improper, it made proper payment difficult. For example, contracts should have contained a DUNS number or CAGE code because one was needed to locate EFT information for payment in the Contractor EFT database.

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## **Appendix E. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Deputy Under Secretary of Defense (Acquisition Reform)  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Commandant, United States Marine Corps  
Deputy Chief of Staff for Installations and Logistics  
Naval Inspector General  
Deputy Naval Inspector General for Marine Corps Matters  
Auditor General, Department of the Navy

### **Department of the Air Force**

Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service  
Director, Commercial Pay Services

### **Non-Defense Federal Organization**

Office of Management and Budget

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs



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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member (cont'd)**

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Government Reform

House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform

House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

House Subcommittee on Technology and Procurement Policy, Committee on Government Reform



# Under Secretary of Defense for Acquisition, Technology, and Logistics Comments



ACQUISITION  
TECHNOLOGY  
AND LOGISTICS

DP/CPF

## OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

AUG 20 2001

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
DOD INSPECTOR GENERAL

THROUGH: DIRECTOR, ACQUISITION RESOURCES & ANALYSIS *WJ 2/10/01*

SUBJECT: DoDIG Draft Report on Controls Over the Computerized  
Accounts Payable System at Defense Finance and  
Accounting Service Kansas City (Project No.  
D2000FI-0248)

This is in response to your memorandum of June 18, 2001, to the Under Secretary of Defense for Acquisition, Technology and Logistics requesting comments on the subject draft report. The comments provided below relate to Recommendation B.1. and the related findings.

The DoDIG review of the Computerized Accounts Payable System (CAPS) at DFAS Kansas City found that most of the sampled contract and miscellaneous vendor payments lacked at least one element of support prescribed in regulations implementing the Prompt Payment Act (PPA). The report noted, however, that a payment that was not properly supported did not mean that the payment was invalid or fraudulent. The lack of proper documentation was generally attributed to the use of forms, such as locally developed forms, that were used to indicate receipt and acceptance of goods and services but were not designed as receiving reports. Consequently, the forms did not contain space for required information.

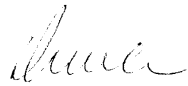
I concur with Recommendation B.1. of the subject report recommending the use of DD Form 250, Material Inspection and Receiving Report, as the primary means for documenting receipt and acceptance of goods and services. The DD Form 250 (revised August 2000), when completed correctly, meets all the PPA requirements for a proper receiving report. I also concur with the reported finding that other standard forms, such as DD Form 1155, Order for Supplies or Services, may be used for making final payments, provided they contain all of the required data elements. Notwithstanding, I will request the Defense



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Acquisition Regulations Council to take the necessary actions to revise DFARS Subpart 232.9, Prompt Payment, to specify the use of DD Form 250 as the primary means for documenting receipt and acceptance of goods and services. This effort will be coordinated with the Director, DFAS and the Military Departments.

Thank you for providing us the opportunity to comment on the draft report.



Deidre A. Lee  
Director, Defense Procurement

# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE COLUMBUS CENTER

P.O. BOX 182317  
COLUMBUS, OHIO 43218-2317

IN REPLY  
REFER TO

DFAS-BS/CC

SEP 17 2001

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE

SUBJECT: Controls Over the Computerized Accounts Payable System at Defense Finance and  
Accounting Service Kansas City (Project No. D2000FI-0248)

As requested in your June 18, 2001, memorandum, the subject audit report has been reviewed. Our comments and corrective actions to the subject recommendations are attached.

The original date for implementation of DPPS at DFAS Kansas City was December 2001. The date has slipped and the schedule for implementation at Kansas City is still under review.

If you have any questions, please contact Mr. Gary Bethea, DFAS-BSPC/CC, at DSN 869-0840 or 614 693-0840.

A handwritten signature in cursive script, reading "JoAnn Boutelle".

JoAnn Boutelle  
Director, Commercial Pay Services

Attachment  
As stated

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**Status of Action Items, DoD IG Audit D2000FI-0248,  
Controls Over the Computerized Accounts Payable System at Defense  
Finance and Accounting Service Kansas City**

**Recommendation A.1:** We recommend that the Director, Commercial Pay Services, establish compensating controls at the Defense Finance and Accounting Service Kansas City that will restrict the access granted under the "Financial Systems Directorate Support" and "System Admin" profiles to system related functions for specific periods of time.

**DFAS Management Comments:** Concur. The Commercial Pay Business Line (CPBL) will review the profiles in CAPS-W and ensure adequate separation of duties.

**Estimated Completion Date:** December 30, 2001.

**Recommendation A.2:** Ensure a Defense Information Security Agency Form 41, "System Authorization Access Request," is properly completed and on file before granting access to the Computerized Accounts Payable System for Windows.

**DFAS Management Comments:** Concur. The CPBL will ensure DISA Form 41 is completed before access is granted to CAPS-W and will ensure all personnel currently with access to CAPS-W has a DISA Form 41 on file.

**Estimated Completion Date:** December 30, 2001.

**Recommendation A.3:** We recommend that the Director, Commercial Pay Services, establish compensating controls at the Defense Finance and Accounting Service Kansas City that will limit access to update vendor maintenance tables and eliminate other types of update access granted to individuals with vendor maintenance access.

**DFAS Management Comments:** Concur. The CPBL will review the profiles in CAPS-W and ensure adequate separation of duties.

**Estimated Completion Date:** December 30, 2001.

**Recommendation A.4:** Limit the ability to delete data from the Computerized Accounts Payable System for Windows and establish audit trails for data removed from the system.

**DFAS Management Comments:** Concur. The CPBL will review the profiles in CAPS-W and ensure adequate separation of duties.

**Estimated Completion Date:** December 30, 2001.

**Recommendation A.5:** Limit the use of the miscellaneous payments function to nonrecurring payments.

**DFAS Management Comments:** Concur. The CPBL will review the profiles in CAPS-W and ensure adequate separation of duties.

**Estimated Completion Date:** December 30, 2001.

**Recommendation A.6:** Remove remote access to update and certify information in the Computerized Accounts Payable System for Windows until the system can provide proper segregation of duties and security over remotely entered data.

**DFAS Management Comments:** Nonconcur. The Marine Corps manages the entitlement and certification of utility payments for their 13 sites using a CAPS-W database that is exclusive for Marine Corps payments. The CPBL will work with the Marine Corps to ensure there are procedures in place for their certifying officials to only certify payments belonging to the certifying official's organization.

**Recommendation B.1:** We recommend that the Under Secretary of Defense (Acquisition, Technology, and Logistics), in coordination with the Director, Defense Finance and Accounting Service, and the Military Services, require the use of the DD Form 250, "Material Inspection and Receiving Report," as the primary means for documenting receipt and acceptance of goods and services.

**DFAS Management Comments:** Partially Concur. DFAS does not establish policy for DoD. DFAS will enforce policy to require the use of DD Form 250 if policy is issued by USD(AT&L) and USD(C).

**Estimated Completion Date:** To be established by USD (AT&L) and USD(C).

**Recommendation B.2:** We recommend that the Director, Commercial Pay Services, issue interim guidance until DoD Regulation 7000.14-R, volume 10, is changed. The guidance should discontinue exceptions to the requirements for a proper invoice, specify what a receiving report must contain to properly support a payment, and standardize the rules for making properly supported miscellaneous payments.

**DFAS Management Comments:** Partially Concur. DFAS CPBL will ensure Kansas City Vendor Pay personnel are aware of the requirements of a proper invoice and of a receiving report, and the required documentation for miscellaneous payments is available to support the payments. Since no fraudulent or illegal payments were detected, DFAS will continue to use judgement on returning invoices or receiving reports for minor flaws that do not distract from the validity of the contract, receiving report, and invoice being in agreement.

**Estimated Completion Date:** December 30, 2001.

**Recommendation B.3.a:** We recommend that the Director, Commercial Pay Services, in conjunction with the Marine Corps develop stringent procedures for accepting invoices receipt dates affixed outside the payment office. Procedures should ensure that the payment office can determine that the designated payment office date-stamped the invoice.

**DFAS Management Comments:** Concur. The CPBL will coordinate with the Marine Corps on a procedure for how invoices are to be date stamped and how DFAS will handle invoices received from the Marine Corps without a date stamp.

**Estimated Completion Date:** December 30, 2001.

**Recommendation B.3.b:** Return all invoices to vendors that do not meet payment requirements.

**DFAS Management Comments:** Concur. Kansas City Vendor Pay site has returned all invoices that did not meet the requirements specified in 5 C.F.R. Part 1315.9(b) of the Prompt Payment Act. A procedure has been implemented at the Kansas City Vendor Pay site to return all improper invoices. The Marine Corps Liaison Office was provided with the required information for a proper invoice in April 2001.

**Estimated Completion Date:** Action complete.

**Recommendation B.3.c:** We recommend that the Director, Commercial Pay Services, in conjunction with the Marine Corps develop and issue guidance to Marine Corps activities identifying the standards for proper receipt and acceptance of Government goods and services.

**DFAS Management Comments:** Partially Concur. DFAS does not develop and issue guidance to the Marine Corp activities. In April 2001, DFAS provided to the Marine Corp Liaison Office the required information for a proper receiving report

**Estimated Completion Date:** Marine Corps to provide response.

**Recommendation B.3.d:** We recommend that the Director, Commercial Pay Services, in conjunction with the Marine Corps, provide training to personnel at receiving activities on the importance of providing completed receiving reports, to payment offices within 5 days of acceptance of goods and services.

**DFAS Management Comments:** Partially Concur. DFAS does not provide training to Marine Corps activities. DFAS will assist the Marine Corps in the development of any training developed and presented on the importance of completing receiving reports accurately and



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timely and providing the receiving reports to DFAS within 5 days of acceptance of goods or services.

**Estimated Completion Date:** Marine Corps to provide response.

**Recommendation C.1:** We recommend that the Director, Commercial Pay Services, change the business structure and practices at the Defense Finance and Accounting Service Kansas City for making vendor payments using the Computerized Accounts Payable System for Windows. Specifically receive and date-stamp all incoming documents supporting vendor payments in a central location outside the vendor payment office.

**DFAS Management Comments:** Concur. The date-stamp of payment documents should not be under the control of the Vendor Pay Site Manager. Kansas City Vendor Pay Site Manager met with the Logistics Officer to transfer all incoming hard copy payment documents and date-stamp equipment to the centralized mailroom on May 7, 2001.

**Estimated Completion Date:** Action complete.

**Recommendation C.2:** Establish a document management section to become the focal point for receipt, screening, and control of all documents supporting vendor payments.

**DFAS Management Comments:** Concur. CPBL is working on a standard organization structure for all Vendor Pay sites. The project team reviewing the organization structure will have as an objective the requirement to establish organization and system controls that ensure adequate separation of duties and increased controls over documents.

**Estimated Completion Date:** March 30, 2002.

**Recommendation C.3:** Segregate the ability to enter information related to invoices and receiving reports into the Computerized Accounts Payable System for Windows from the ability to enter purchase order data. Alternatively, segregate the ability to enter invoices, receiving reports, and obligating documents from the ability to compute payments.

**DFAS Management Comments:** Concur. The CPBL will review the profiles in CAPS-W and ensure adequate separation of duties.

**Estimated Completion Date:** December 30, 2001.

**Recommendation C.4:** Develop standards for entering invoices and receiving reports into the Computerized Accounts Payable System for Windows.

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**DFAS Management Comments:** Concur. Employees' standards will be modified to specifically state the quality and quantity of invoices and receiving reports to be entered into CAPS-W during required timeframes.

**Estimated Completion Date:** December 30, 2001.

**Recommendation C.5:** Organizationally separate certification officials from the accounts payable teams. Establish a separate section within the vendor payment office for certification officials who ensure that payments are legal, proper, and correct before they are certified.

**DFAS Management Comments:** Concur. CPBL is working on a standard organization structure for all Vendor Pay sites. The project team reviewing the organization structure will have as an objective the requirement to establish organization and system controls that ensure adequate separation of duties and increased controls over certification duties.

**Estimated Completion Date:** March 30, 2002.

**Recommendation C.6:** Certify all individual vendor payments until a sampling plan for certifying a representative sample of contract and miscellaneous payments is developed and approved.

**DFAS Management Comments:** Partially Concur. DFAS will implement the pre- and post-payment reviews based on the current DFAS Arlington statistical sample guidance that is in coordination.

**Estimated Completion Date:** December 30, 2001.

**Recommendation C.7:** Designate individuals to review reports that indicate problems with documents needed to support payments and work with customers to receive missing information. Establish a reports and reconciliation section to handle payment anomalies and reconcile system reports.

**DFAS Management Comments:** Concur. Reports are generated to identify invoices missing receiving reports and obligations. Supervisors review these reports before disseminating them to the Marine Corps Liaison Office. DFAS Kansas City Vendor Pay Supervisors will coordinate with the Marine Corps Liaison Office to obtain missing documents.

**Estimated Completion Date:** October 30, 2001.

**Recommendation C.8:** Perform monthly post-payment voucher reviews to ensure that vendor payments are properly supported and to identify problem areas.

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**DFAS Management Comments:** Partially Concur. Post-payment reviews will revert to monthly if the quarterly reviews result in an unacceptable level of compliance.

**Estimated Completion Date:** October 31, 2001.

**Recommendation C.9:** Develop a comprehensive training program for making properly supported vendor payments.

**DFAS Management Comments:** Concur. Training personnel at the Kansas City Vendor Pay Site developed a new employee training program in January 2001. Refresher training on items identified during this audit, such as interest computation/allocation, missing receiving reports, and valid supporting documentation, has been provided to Vendor Pay personnel. The training program will be reviewed to ensure it meets all the requirements identified since establishment of the CPBL.

**Estimated Completion Date:** December 30, 2001.

## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

Paul J. Granetto  
Richard B. Bird  
Marvin L. Peek  
Carmelo G. Ventimiglia  
George C. DeBlois  
Michelle D. Pippin  
Rebecca L. Niemeier  
Lusk F. Penn